

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |  |                          |  |  |                       |
|--|--|--------------------------|--|--|-----------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |  |                          |  | Local Unit Name<br>City of Manistique            | County<br>Schoolcraft |
| Fiscal Year End<br>06-30-06  |  | Opinion Date<br>09-07-06 |  | Date Audit Report Submitted to State<br>10-30-06 |                       |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

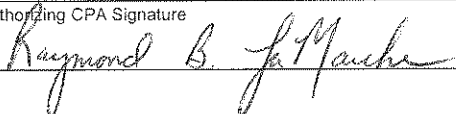
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |                              |
| Other (Describe)   | <input checked="" type="checkbox"/> | Single Audit                               |                              |
| Certified Public Accountant (Firm Name)<br>Anderson, Tackman & Company, PLC                                      |                                     | Telephone Number<br>906-786-3111           |                              |
| Street Address<br>901 Ludington St   |                                     | City<br>Escanaba                           | State<br>MI                  |
|  |                                     | Zip<br>49829                               |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Raymond B. LaMarche        | License Number<br>1101025531 |

**CITY OF MANISTIQUE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Manistique  
Manistique, Michigan 49854

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manistique, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006, on our consideration of the City of Manistique, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 14 and 67 through 71, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistique, Michigan basic financial statements. The combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Manistique, Michigan. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.L.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 7, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This discussion and analysis of City of Manistique's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2006. Please read it in conjunction with the City's financial statements, which begin on page 15.

### FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$11,429,697. This is the third year for the City to book net assets for all funds, as this is the second year to implement GASB 34, which requires us to book assets in all funds, not just in the Enterprise Funds. Net assets for our business-type activities were \$9,981,595, while net assets in our governmental activities were \$1,448,102. We are now tracking all assets over \$5,000 (the limit set by Council with recommendation from Management) in a new depreciation program which will allow us to account for depreciation and be able to predict and budget more readily for this non-cash expense, a cost that ultimately affects our bottom line and Fund Balance, therefore becoming an important part of the accounting equation.
- The City's expenses for the year totaled \$6,009,842, an increase of \$512,424 (9.32%) over 2005. Revenues from all sources were \$7,066,950, an increase of \$1,525,135 (27.52%). Revenues in the Water and Wastewater Utilities increased in Wastewater by 8.37% and increased in Water by 13.76% respectively. Expenses in Wastewater went from \$1,004,445 to \$1,060,014, a difference of \$55,569 (5.53%). Expenses in Water went from \$899,434 to \$950,982, a difference of \$51,548 (5.73%).
- Sales in Ambulance increased by \$29,614 (8.85%). This resulted from a record number of runs and a decrease in write-offs. We requested that Rampart verify write-offs with us before turning over large amounts that we might deem collectible to Northern Service Bureau. Expenses increased by \$66,921 (23.18%).
- In the City's business type activities, total revenues were \$2,739,244, an increase of 39.35% over the previous year. Business-type activity revenues were 38.76% as a percentage of total revenues compared to 49.22% the previous year. This came most likely as the result of a record number of ambulance runs and a 9% increase in water and sewer rates. Business type expenses on the other hand calculated at 40.92%, where last year they were 41.74% of total expenses. Water and Wastewater have been using DPW services when at all possible. This has increased their expenses for labor, and this movement has decreased the expenses in the DPW departments in the General Fund. This creates a win-win situation for both Water, Wastewater, and the General Fund, as it obviously saves the General Fund, while Water and Wastewater save substantially over the cost of contracted help. This could create a potential problem for Water and Wastewater though unless they begin to recoup enough revenue to completely cover these costs and also fund their depreciation. Council and Management raised rates for FY 2006. Raising rates will most certainly help the amount of retained earnings lost each year to depreciation, but it will not completely correct the problem. The City of Manistique has a real area of concern in old lines that need replacing. Underground infrastructure and replacement have been brought to the public's attention, with an emphasis placed on the need for the base fee in water and wastewater. Getting the public educated to

the importance of required reserves and sufficient operating capital was extremely difficult. The City Council and Management took quite a political beating on this issue. It is not an issue that will go away soon as we will need to address this rate yearly and hopefully not allow ourselves to again freeze rates at the detriment to the system.

- The City implemented its webpage, first as manistique.info, and then as both manistique.info and cityofmanistique.com. We now have our voter's registration, cemetery records from Fairview, city officials listing, and much more online. While not yet completed, the service over time should prove to be an asset to the community and a definite timesaver to our employees. All City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. The service has also allowed the City to avoid the cost of dedicated phone lines for some utility functions.
- The General Fund finished the year with a positive unrestricted fund balance of \$189,315 compared to last year's balance \$89,194. This was after revenues of \$2,410,622 compared to \$2,225,680 in 2005, and expenditures of \$2,346,866 compared to expenditures of \$2,191,115 in 2005.
- The net assets for the governmental activities were \$1,448,102 in 2006 compared to \$750,720 in 2005. The CDBG downtown project played a large part in the increase of net assets. Decreased liabilities and paid off loans along with the purchase of a new firetruck obtained with grant monies played a part of this increase. This was our second year to implement GASB 34, the tracking of assets. This will be interesting to follow as we watch our depreciation in comparison with purchase of new capital assets and infrastructure improvements. Again, this is an area where depreciation plays a huge part in the value of the City as a whole. This value also serves as an indicator of how we look to lending institutions and our other creditors and determines what kind of interest rates we obtain from them when we bond or borrow.

## USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

The City has included the Manistique Housing Commission as a discretely presented component unit as determined by GASB Statement 14, as amended by GASB Statement 39. The Manistique Housing Commission issues its own separately audited financial statement which may be obtained at 400 East Lake Shore Drive, Manistique, Michigan 49854.



## Reporting the City as a whole

### Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 7. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities reports information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation, and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Ambulance, and Recreation funds are reported here.

## Reporting the City's Most Significant Funds

### Fund Financial Statements

Our analysis of the City's Major Funds begins on page 11. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that the City is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds, and the balances that are left at year-end available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation that follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

### The City as a Trustee

The City is the trustee, or *fiduciary*, of funds that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## The City as a Whole

The City's net combined assets were \$11,429,697.

**Table 1**  
**Net Assets**

|  | Governmental<br>Activities |                     | Business-Type<br>Activities |                      |
|--|----------------------------|---------------------|-----------------------------|----------------------|
|  | 2005                       | 2006                | 2005                        | 2006                 |
| Current and other assets                           | \$ 1,331,740               | \$ 1,824,979        | \$ 1,365,160                | \$ 1,363,003         |
| Capital assets (net)                               | 3,778,433                  | 4,592,359           | 13,594,095                  | 13,730,072           |
| Total Assets                                       | <u>\$ 5,110,173</u>        | <u>\$ 6,417,338</u> | <u>\$ 14,959,255</u>        | <u>\$ 15,093,075</u> |
| Long-term debt outstanding                         | \$ 4,033,348               | \$ 4,245,220        | \$ 5,212,795                | \$ 4,996,644         |
| Other liabilities                                  | 326,105                    | 724,016             | 124,591                     | 114,836              |
| Total Liabilities                                  | <u>4,359,453</u>           | <u>4,969,236</u>    | <u>5,337,386</u>            | <u>5,111,480</u>     |
| Net Assets:  |                            |                     |                             |                      |
| Invested in capital assets,<br>net of related debt | 2,333,412                  | 2,797,139           | 8,381,300                   | 8,733,428            |
| Restricted assets:                                 |                            |                     |                             |                      |
| Expendable   | 418,951                    | 384,033             | -                           | -                    |
| Nonexpendable                                      | 155,682                    | 158,982             | -                           | -                    |
| Unrestricted                                       | <u>(2,157,325)</u>         | <u>(1,892,052)</u>  | <u>1,240,569</u>            | <u>1,248,167</u>     |
| Total net assets                                   | <u>\$ 750,720</u>          | <u>\$ 1,448,102</u> | <u>\$ 9,621,869</u>         | <u>\$ 9,981,595</u>  |

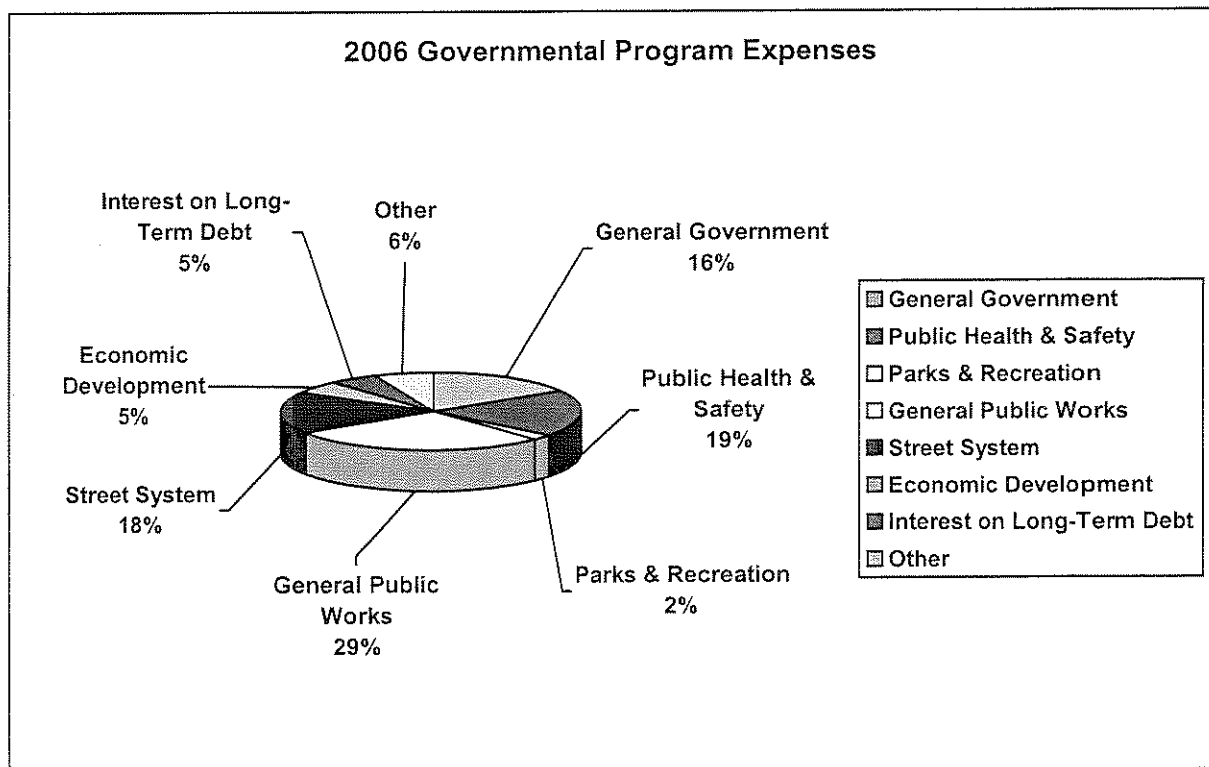
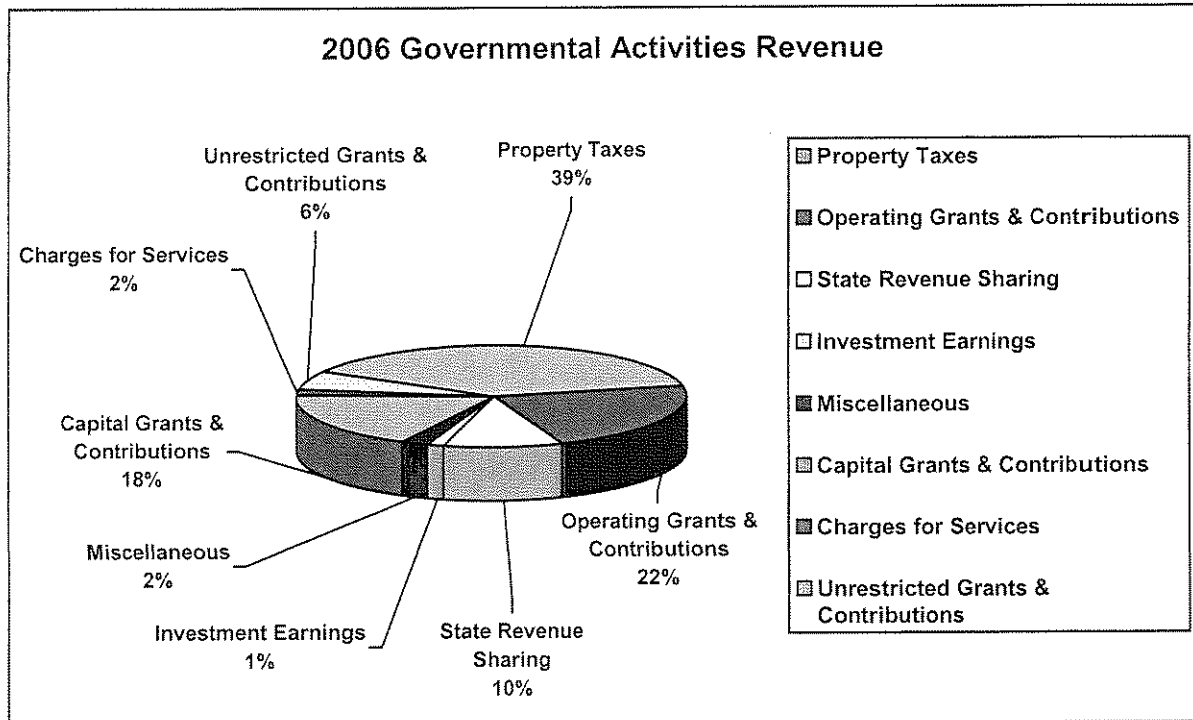
Net assets of the City's governmental activities stood at \$1,448,102. Total assets stood at \$6,417,338. The ratio of assets to liabilities stood at 1.29 in 2006 compared to 1.17. This will serve as our third year point in tracking this number, a good indicator of our overall financial health. The City had a net increase in long-term debt of \$211,872 and an increase of \$609,783 in total liabilities. The increase in liabilities is primarily due to in new debt for the purchase of equipment and as local match for the CDBG downtown infrastructure project. This is an area to watch closely.

Net assets in our business-type activities stood at \$9,981,595 in 2006. Total assets were at \$15,093,075. Liabilities stood at \$5,111,480 in 2006. Unrestricted net assets ended the FY at \$1,248,167 in 2006. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

**Table 2**  
**Changes in Net Assets**

|  | Governmental<br>Activities |                     | Business-Type<br>Activities |                     |
|--|----------------------------|---------------------|-----------------------------|---------------------|
|  | 2005                       | 2006                | 2005                        | 2006                |
| <b>Revenues:</b>                                       |                            |                     |                             |                     |
| Program Revenues:                                      |                            |                     |                             |                     |
| Charges for services                                   | \$ 62,284                  | \$ 79,747           | \$ 1,965,773                | \$ 2,174,794        |
| Operating grants & contributions                       | 557,410                    | 952,493             | -                           | -                   |
| Capital grants & contributions                         | 101,625                    | 767,082             | -                           | 564,450             |
| General Revenues:                                      |                            |                     |                             |                     |
| Property taxes   | 1,615,015                  | 1,664,788           | -                           | -                   |
| State revenue sharing                                  | 444,112                    | 439,588             | -                           | -                   |
| Other grants & contributions                           | 679,047                    | 256,507             | -                           | -                   |
| Unrestricted investment earnings/interest income       | 31,940                     | 52,282              | 7,791                       | 14,632              |
| Miscellaneous/Other                                    | 76,818                     | 100,587             | -                           | -                   |
| Total Revenues   | <u>3,568,251</u>           | <u>4,313,074</u>    | <u>1,973,564</u>            | <u>2,753,876</u>    |
| <b>Program Expenses:</b>                               |                            |                     |                             |                     |
| General government                                     | 747,619                    | 579,009             | -                           | -                   |
| Public health & safety                                 | 679,131                    | 682,267             | -                           | -                   |
| Parks & recreation                                     | 42,996                     | 77,445              | -                           | -                   |
| General public works                                   | 365,895                    | 978,475             | -                           | -                   |
| Street system  | 670,030                    | 616,068             | -                           | -                   |
| Economic development                                   | 341,417                    | 179,396             | -                           | -                   |
| Sanitary landfill                                      | (10,843)                   | 35,170              | -                           | -                   |
| Other  | 189,145                    | 222,043             | -                           | -                   |
| Interest on long-term debt                             | 177,633                    | 180,819             | -                           | -                   |
| Ambulance  | -                          | -                   | 288,599                     | 355,520             |
| Recreation building                                    | -                          | -                   | 101,917                     | 92,634              |
| Waste water utility                                    | -                          | -                   | 1,004,445                   | 1,060,014           |
| Water utility  | -                          | -                   | 899,434                     | 950,982             |
| Total Expenses   | <u>3,203,023</u>           | <u>3,550,692</u>    | <u>2,294,395</u>            | <u>2,459,150</u>    |
| Excess (deficiency) before transfers and contributions | 365,228                    | 762,382             | (320,831)                   | 294,726             |
| Transfers  | <u>(62,900)</u>            | <u>(65,000)</u>     | <u>62,900</u>               | <u>65,000</u>       |
| Increase (decrease) in net assets                      | 302,328                    | 697,382             | (257,931)                   | 359,726             |
| Net assets - beginning                                 | <u>448,392</u>             | <u>750,720</u>      | <u>9,879,800</u>            | <u>9,621,869</u>    |
| Net assets - ending                                    | <u>\$ 750,720</u>          | <u>\$ 1,448,102</u> | <u>\$ 9,621,869</u>         | <u>\$ 9,981,595</u> |

## Governmental Activities



The City's total revenues were \$7,066,950 in 2006. The cost of all programs and services was \$6,009,842 for 2006. For 2006, the difference between revenue and expenses was \$1,057,108.

## Governmental Activities

Revenues for the City's governmental activities totaled \$4,313,074 while expenses totaled \$3,550,692.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3**  
**Government Activities**

|                        | Total Cost<br>of Services |                     | Net Cost<br>of Services |                     |
|------------------------|---------------------------|---------------------|-------------------------|---------------------|
|                        | 2005                      | 2006                | 2005                    | 2006                |
| Public health & safety | \$ 679,131                | \$ 682,267          | \$ 522,887              | \$ 417,061          |
| Street systems         | 670,030                   | 616,068             | 266,598                 | 140,254             |
| Economic development   | 341,417                   | 179,396             | 326,417                 | 79,896              |
| General public works   | 365,895                   | 978,475             | 365,895                 | 250,051             |
| General government     | 747,619                   | 579,009             | 630,017                 | 387,767             |
| Totals                 | <u>\$ 2,804,092</u>       | <u>\$ 3,035,215</u> | <u>\$ 2,111,814</u>     | <u>\$ 1,275,029</u> |

Total costs of services increased, yet net costs of services declined as a result of tighter budget controls and reimbursement from the CDBG grant. There were a couple factors that mitigated against attempts to control costs. We were hit with higher cost increases in insurance, such as Blue Cross Blue Shield. We have tried to curtail this cost by joining the MEBS insurance plan. It provides the employee with the benefits of their prior PPO1 policy, but in fact the City is carrying a higher deductible policy, PPO12, and is paying the difference to MEBS. We are continuing to monitor what savings this will bring, and are exploring HSA's as an alternative. If not as expected, health insurance could continue to be an area of focus in future budget planning. In the Major and Local Street Funds, consecutive weekend snowstorms in the winter of 2006 ran up snow removal costs. Major and Local both had sufficient fund balances to accommodate these expenses, and we were glad that we had left them with a surplus.

## Business-Type Activities

Revenues for the City's business-type activities totaled \$2,753,876, up from \$2,036,464 in 2005 (35.2%). Most of the increase occurred in Water and Sewer, because of the rate increase of 9% and the increase in ambulance runs.

## THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$1,228,536, an increase of \$111,124 from 2005. This was due primarily to an increase in assets of \$123,985 (some of this due to General Fund increasing their fund balance, as well as the Major and Local Street Funds).

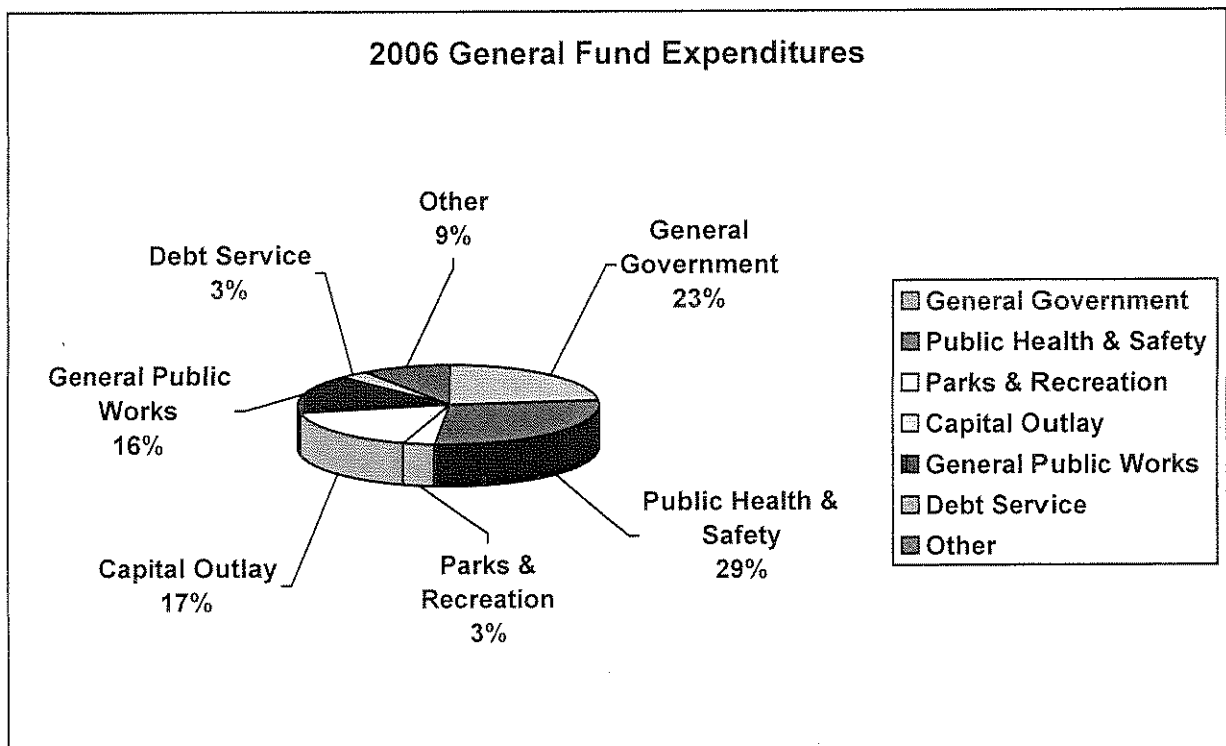
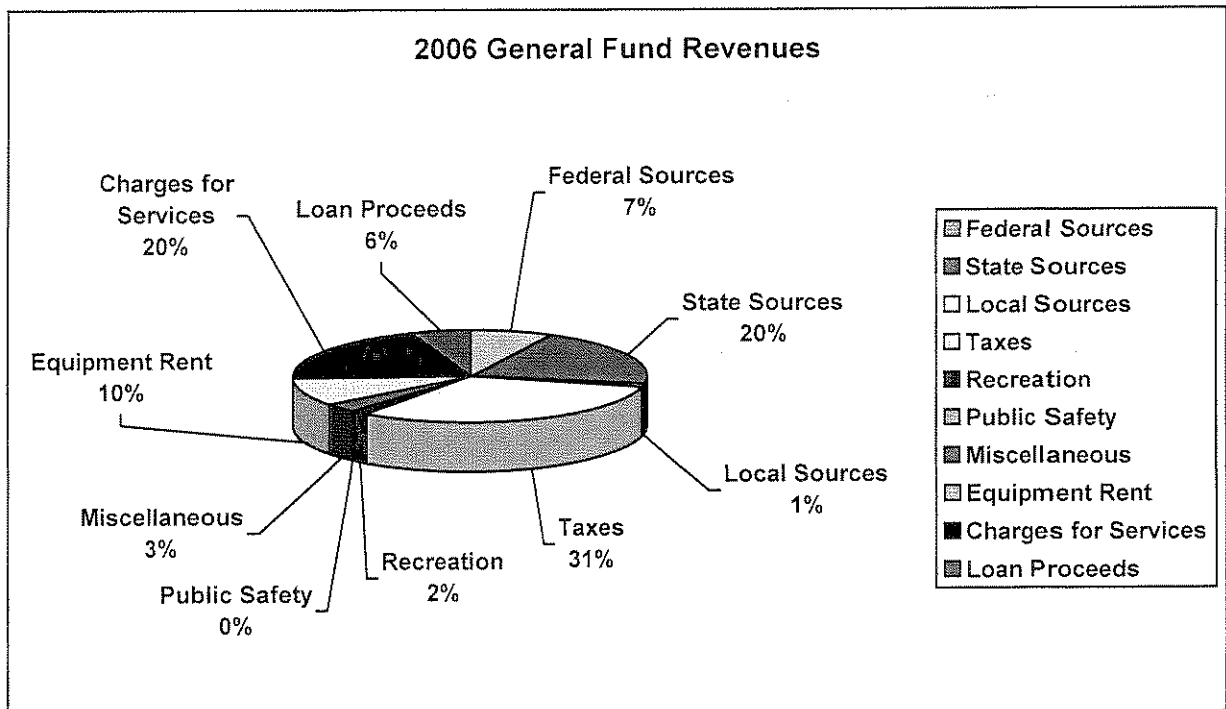
### General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$2,410,622 just 4.8% over amended budget. Expenses were a little harder to predict, given variables such as winter weather, and costs for health insurance. The final expense number of \$2,346,866 was over the revised expense estimate of \$2,326,668. Over the next year, we will concentrate on building up fund balances in the General Fund to absorb overruns in the future.

The final revenue number was \$2,410,622, and the final fund balance for General Fund was \$224,858, which included the unrestricted amount of \$189,315, the rest being restricted for fire-truck CD's, inventory, donations, etc. Equipment rent that came in above appropriated amounts helped to retain our fund balance and add to it. One factor that caused cost overruns was weekend snowstorms that required extensive overtime for winter maintenance. We were fortunate to have enough fund balance in the Major and Local Streets funds to cover this extremely high expense in those funds and to bring it back into the General Fund as equipment rent revenue. Keeping higher fund balances in the Major and Local Street funds proved to be a wise move, and we will continue to monitor those funds and plan again accordingly. This will become easier to do as the economy improves.

All employees worked together to reduce expenses in their departments. When we got into February and March, Mother Nature decided to help us along a bit, dumping a significant amount of snow down on our street systems. Thankfully we had enough in Major and Local to cover these expenses, which in turn took the burden of winter salaries and fringes off General Fund. We finished the year with a positive fund balance, at which point we breathed a sigh of relief. Our goal now is to increase the fund balance to \$200,000, the point at which we will feel more comfortable. It is our understanding that the General Fund should have a fund balance or cushion of approximately 10-15% of expenditures, which would be approximately \$200,000. The City is very fortunate to have personnel willing to work with us, and for that we say **"Thank You"** to them.

## General Fund





## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2006, the City had \$18,322,431, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water and wastewater. (See table 4 below)

**Table 4**  
**Capital Assets at Year-End**  
**(net of accumulated depreciation)**

|                                | Governmental<br>Activities |                     | Business-Type<br>Activities |                      |
|--------------------------------|----------------------------|---------------------|-----------------------------|----------------------|
|                                | 2005                       | 2006                | 2005                        | 2006                 |
| Land                           | \$ 81,000                  | \$ 100,331          | \$ 2,139                    | \$ 2,139             |
| Land Improvements              | 47,979                     | 47,979              | 58,996                      | 58,996               |
| Buildings                      | 760,733                    | 785,265             | 833,022                     | 885,613              |
| Machinery & Equipment          | 440,215                    | 523,972             | 1,135,381                   | 1,144,311            |
| Vehicles                       | 392,629                    | 623,110             | -                           | -                    |
| Infrastructure- road system    | 4,988,701                  | 5,737,819           | -                           | -                    |
| Distribution/collection system | -                          | -                   | 20,192,475                  | 20,832,605           |
| Accumulated Depreciation       | (2,932,824)                | (3,226,117)         | (8,627,918)                 | (9,193,592)          |
| Total                          | <u>\$ 3,778,433</u>        | <u>\$ 4,592,359</u> | <u>\$ 13,594,095</u>        | <u>\$ 13,730,072</u> |

This is the third year to list capital assets for the governmental activities as we are implementing the new regulation of GASB 34.

### DEBT

At year-end the City had a total \$8,701,864 in long-term debt obligations. This is a net increase of \$15,721 in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$3,475,000 is well below the 10% limit of just over \$5,500,000.

**Table 5**  
**Outstanding Debt at Year-End**

|   | Governmental<br>Activities |                     | Business-Type<br>Activities |                     | Totals              |                     |
|---|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
|   | 2005                       | 2006                | 2005                        | 2006                | 2005                | 2006                |
| General obligation bonds/<br>notes(backed by the City)                  | \$ 233,348                 | \$ 230,220          | \$ 111,295                  | \$ 52,644           | \$ 344,643          | \$ 282,864          |
| Revenue bonds and notes<br>(backed by specific tax<br>and fee revenues) | 3,240,000                  | 3,475,000           | 5,101,500                   | 4,944,000           | 8,341,500           | 8,419,000           |
| Totals  | <u>\$ 3,473,348</u>        | <u>\$ 3,705,220</u> | <u>\$ 5,212,795</u>         | <u>\$ 4,996,644</u> | <u>\$ 8,686,143</u> | <u>\$ 8,701,864</u> |

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. While it seems apparent that an economic recovery is underway and accelerating, it may take years to replace some of the economic vigor that was lost during the recent recession. During this period however, Manistique has experienced growth in commercial development. This development will allow the continued growth in service type jobs, but some of these will be at higher wages than in the past. Further, development is continuing to focus on Manistique's waterfront. This growth will affect revenues for the years coming.

The cost of living in Manistique is below the national and State average, but real estate values continue to climb. The growth of other costs continue to rise at the national inflation rate or lower. These factors were taken into account when adopting the 2006 budget. However, the specter of continued decreases in State shared revenues still exists, and cost control will remain a priority. Cost cuts in health insurance expenses for all divisions by joining the MEBS plan will hopefully help with cost containment. We will continue to monitor all costs, explore health savings accounts, and will make adjustments where necessary.

For our business type activities, continued slow growth is forecast in water and wastewater. Ambulance remains a stabilizing force in the enterprise funds as the City supplies a need for the community and a steady income for the fund. Recreation seems to be the area that has struggled in the past and this year remains no exception. The City of Manistique has received a DNR grant that will allow a central park to be built. The DDA will be applying for a Waterways grant to make needed improvements at the City marina.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Manistique City Hall, 300 North Maple St, P.O. Box 515, Manistique, Michigan, 49854.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

|   | Primary Government      |                          |                      | Component Unit                |
|---|-------------------------|--------------------------|----------------------|-------------------------------|
|   | Governmental Activities | Business-Type Activities | Total                | Manistique Housing Commission |
| <b>ASSETS</b>                                   |                         |                          |                      |                               |
| Current assets:                                 |                         |                          |                      |                               |
| Cash and cash equivalents                       |                         |                          |                      |                               |
| Restricted                                      | \$ 180,487              | \$ 360,775               | \$ 541,262           | \$ -                          |
| Unrestricted                                    | 1,326,027               | 422,586                  | 1,748,613            | 175,822                       |
| Investments                                     | -                       | -                        | -                    | 198,509                       |
| Receivables :                                   |                         |                          |                      |                               |
| Accounts  | 25,472                  | 75,275                   | 100,747              | 4,595                         |
| Utilities                                       | -                       | 288,303                  | 288,303              | -                             |
| Delinquent taxes                                | 9,358                   | -                        | 9,358                | -                             |
| Cemetery  | 1,909                   | -                        | 1,909                | -                             |
| Internal balances                               | (189,906)               | 189,906                  | -                    | -                             |
| Due from other governmental units               | 456,934                 | 8,009                    | 464,943              | -                             |
| Prepays   | -                       | 10,000                   | 10,000               | 17,225                        |
| Inventory                                       | 14,698                  | 8,149                    | 22,847               | -                             |
| Total current assets                            | <u>1,824,979</u>        | <u>1,363,003</u>         | <u>3,187,982</u>     | <u>396,151</u>                |
| Noncurrent assets:                              |                         |                          |                      |                               |
| Capital assets (net)                            | <u>4,592,359</u>        | <u>13,730,072</u>        | <u>18,322,431</u>    | <u>805,195</u>                |
| Total assets                                    | <u>\$ 6,417,338</u>     | <u>\$ 15,093,075</u>     | <u>\$ 21,510,413</u> | <u>\$ 1,201,346</u>           |
| <b>LIABILITIES</b>                              |                         |                          |                      |                               |
| Current liabilities:                            |                         |                          |                      |                               |
| Accounts payable                                | \$ 506,751              | \$ 10,859                | \$ 517,610           | \$ 12,149                     |
| Accrued payroll                                 | 13,760                  | 10,375                   | 24,135               | -                             |
| Accrued interest                                | 39,941                  | 54,186                   | 94,127               | -                             |
| Due to other governmental units                 | 45,467                  | -                        | 45,467               | -                             |
| Accrued liabilities                             | -                       | -                        | -                    | 30,834                        |
| Deferred revenue                                | -                       | 1,790                    | 1,790                | -                             |
| Customer deposits                               | -                       | 8,754                    | 8,754                | -                             |
| Compensated absences                            | 29,524                  | 8,661                    | 38,185               | -                             |
| Bonds payable                                   | 405,000                 | 157,000                  | 562,000              | -                             |
| Notes payable                                   | 89,488                  | 16,776                   | 106,264              | -                             |
| Landfill postclosure costs                      | 20,000                  | -                        | 20,000               | -                             |
| Total current liabilities                       | <u>1,149,931</u>        | <u>268,401</u>           | <u>1,418,332</u>     | <u>42,983</u>                 |
| Noncurrent liabilities:                         |                         |                          |                      |                               |
| Compensated absences                            | 88,573                  | 20,211                   | 108,784              | -                             |
| Bonds payable                                   | 3,070,000               | 4,787,000                | 7,857,000            | -                             |
| Notes payable                                   | 140,732                 | 35,868                   | 176,600              | -                             |
| Landfill postclosure costs                      | 520,000                 | -                        | 520,000              | -                             |
| Other   | -                       | -                        | -                    | 12,183                        |
| Total noncurrent liabilities                    | <u>3,819,305</u>        | <u>4,843,079</u>         | <u>8,662,384</u>     | <u>12,183</u>                 |
| Total liabilities                               | <u>\$ 4,969,236</u>     | <u>\$ 5,111,480</u>      | <u>\$ 10,080,716</u> | <u>\$ 55,166</u>              |
| <b>NET ASSETS</b>                               |                         |                          |                      |                               |
| Invested in capital assets, net of related debt | \$ 2,797,139            | \$ 8,733,428             | \$ 11,530,567        | \$ 805,195                    |
| Restricted for:                                 |                         |                          |                      |                               |
| Expendable:                                     |                         |                          |                      |                               |
| Donated projects                                | 12,593                  | -                        | 12,593               | -                             |
| Sanitary landfill                               | 371,440                 | -                        | 371,440              | -                             |
| Nonexpendable:                                  |                         |                          |                      |                               |
| Cemetery perpetual care                         | 158,982                 | -                        | 158,982              | -                             |
| Unrestricted                                    | <u>(1,892,052)</u>      | <u>1,248,167</u>         | <u>(643,885)</u>     | <u>340,985</u>                |
| Total net assets                                | <u>\$ 1,448,102</u>     | <u>\$ 9,981,595</u>      | <u>\$ 11,429,697</u> | <u>\$ 1,146,180</u>           |

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2006**

| Functions/Programs   | Program Revenue |                                      |                                    |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                |
|--|-----------------|--------------------------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
|  | Expenses        | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government                              |                          |                |
|  |                 |                                      |                                    |                                  | Governmental Activities                         | Business-type Activities | Component Unit |
| Governmental activities:                                     |                 |                                      |                                    |                                  |   |                          |                |
| General government   | \$ 579,009      | \$ 10,108                            | \$ 181,134                         | \$ -                             | \$ (387,767)                                    | \$ -                     | \$ (387,767)   |
| Public health and safety                                     | 682,267         | 21,793                               | 67,682                             | 175,731                          | (417,061)                                       | -                        | (417,061)      |
| Parks and recreation   | 77,445          | 39,136                               | -                                  | -                                | (38,309)  | -                        | (38,309)       |
| General public works   | 978,475         | 8,710                                | 140,363                            | 579,351                          | (250,051)                                       | -                        | (250,051)      |
| Street system  | 616,068         | -                                    | 475,814                            | -                                | (140,254)                                       | -                        | (140,254)      |
| Economic development   | 179,396         | -                                    | 87,500                             | 12,000                           | (79,896)  | -                        | (79,896)       |
| Sanitary landfill  | 35,170          | -                                    | -                                  | -                                | (35,170)  | -                        | (35,170)       |
| Other  | 222,043         | -                                    | -                                  | -                                | (222,043)                                       | -                        | (222,043)      |
| Interest on long-term debt                                   | 180,819         | -                                    | -                                  | -                                | (180,819)                                       | -                        | (180,819)      |
| Total governmental activities                                | 3,550,692       | 79,747                               | 952,493                            | 767,082                          | (1,751,370)                                     | -                        | (1,751,370)    |
| Business-type activities:                                    |                 |                                      |                                    |                                  |   |                          |                |
| Ambulance  | 355,520         | 364,098                              | -                                  | -                                | -   | 8,578                    | 8,578          |
| Recreation Building  | 92,634          | 58,564                               | -                                  | 12,655                           | -   | (21,415)                 | (21,415)       |
| Waste water utility  | 1,060,014       | 847,069                              | -                                  | 346,035                          | -   | 133,090                  | 133,090        |
| Water utility  | 950,982         | 905,063                              | -                                  | 205,760                          | -   | 159,841                  | 159,841        |
| Total business-type activities                               | 2,459,150       | 2,174,794                            | -                                  | 564,450                          | -   | 280,094                  | 280,094        |
| Total primary government                                     | \$ 6,009,842    | \$ 2,254,541                         | \$ 952,493                         | \$ 1,331,532                     | (1,751,370)                                     | 280,094                  | (1,471,276)    |
| Component Unit:  |                 |                                      |                                    |                                  |   |                          |                |
| Manistique Housing Commission                                | \$ 581,615      | \$ 159,479                           | \$ 310,383                         | \$ 124,993                       | -   | -                        | 13,240         |
| General revenues:  |                 |                                      |                                    |                                  |   |                          |                |
| Property taxes   |                 |                                      |                                    |                                  | 1,484,661                                       | -                        | 1,484,661      |
| Property taxes - restricted for sanitary landfill            |                 |                                      |                                    |                                  | 180,127   | -                        | 180,127        |
| State revenue sharing  |                 |                                      |                                    |                                  | 439,588   | -                        | 439,588        |
| Grants and contributions not restricted to specific programs |                 |                                      |                                    |                                  | 256,507   | -                        | 256,507        |
| Contributions to permanent fund                              |                 |                                      |                                    |                                  | 3,300   | -                        | 3,300          |
| Unrestricted investment earnings                             |                 |                                      |                                    |                                  | 52,282  | 14,632                   | 66,914         |
| Miscellaneous  |                 |                                      |                                    |                                  | 97,287  | -                        | 97,287         |
| Transfers  |                 |                                      |                                    |                                  | (65,000)  | 65,000                   | -              |
| Total general revenues and transfers                         |                 |                                      |                                    |                                  | 2,448,752                                       | 79,632                   | 2,528,384      |
| Changes in net assets  |                 |                                      |                                    |                                  | 697,382   | 359,726                  | 1,057,108      |
| Net assets - beginning                                       |                 |                                      |                                    |                                  | 750,720   | 9,621,869                | 10,372,589     |
| Net assets - ending  |                 |                                      |                                    |                                  | \$ 1,448,102                                    | \$ 9,981,595             | \$ 11,429,697  |
|  |                 |                                      |                                    |                                  |   |                          | \$ 1,146,180   |

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2006**

|                                      | General<br>Fund   | Major<br>Street   | Local<br>Street  |
|--------------------------------------|-------------------|-------------------|------------------|
| <b>ASSETS</b>                        |                   |                   |                  |
| Cash and equivalents:                |                   |                   |                  |
| Restricted                           | \$ 21,505         | \$ -              | \$ -             |
| Unrestricted                         | 249,278           | 135,311           | 66,366           |
| Receivables:                         |                   |                   |                  |
| Accounts                             | 5,015             | -                 | -                |
| Delinquent taxes                     | 8,267             | -                 | -                |
| Cemetery                             | 1,909             | -                 | -                |
| Due from other funds                 | 76,515            | -                 | -                |
| Due from other governmental units    | 192,944           | 32,294            | 12,150           |
| Inventory                            | 14,698            | -                 | -                |
|                                      | <u>\$ 570,131</u> | <u>\$ 167,605</u> | <u>\$ 78,516</u> |
| Total assets                         |                   |                   |                  |
| <b>LIABILITIES AND FUND BALANCES</b> |                   |                   |                  |
| Liabilities:                         |                   |                   |                  |
| Accounts payable                     | \$ 99,488         | \$ 74             | \$ 103           |
| Accrued payroll                      | 11,505            | 1,119             | 736              |
| Due to other funds                   | 225,363           | 18,504            | 16,288           |
| Due to other governmental units      | -                 | -                 | -                |
| Deferred revenue                     | 8,917             | -                 | -                |
|                                      | <u>345,273</u>    | <u>19,697</u>     | <u>17,127</u>    |
| Total liabilities                    |                   |                   |                  |
| Fund balances:                       |                   |                   |                  |
| Reserved for:                        |                   |                   |                  |
| Inventory                            | 14,699            | -                 | -                |
| Donated projects                     | 12,593            | -                 | -                |
| Sanitary landfill                    | 8,251             | -                 | -                |
| Cemetery perpetual care              | -                 | -                 | -                |
| Unreserved, undesignated             | 189,315           | 147,908           | 61,389           |
| Unreserved, reported in non-major:   |                   |                   |                  |
| Capital project fund                 | -                 | -                 | -                |
|                                      | <u>224,858</u>    | <u>147,908</u>    | <u>61,389</u>    |
| Total fund balances                  |                   |                   |                  |
| Total liabilities and fund balances  | <u>\$ 570,131</u> | <u>\$ 167,605</u> | <u>\$ 78,516</u> |

See accompanying notes to financial statements.

| <u>DDA Fund</u>   | <u>CDBG<br/>Downtown<br/>Project</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------|--------------------------------------|--|---|
| \$ -              | \$ -                                 | \$ 158,982                                 | \$ 180,487                              |
| 415,410           | 106,766                              | 352,896                                    | 1,326,027                               |
| 20,457            | -                                    | -  | 25,472                                  |
| -                 | -                                    | 1,091                                      | 9,358                                   |
| -                 | -                                    | -  | 1,909                                   |
| -                 | 101,039                              | -  | 177,554                                 |
| 16,027            | 193,226                              | 10,293                                     | 456,934                                 |
| -                 | -                                    | -  | 14,698                                  |
| <u>\$ 451,894</u> | <u>\$ 401,031</u>                    | <u>\$ 523,262</u>                          | <u>\$ 2,192,439</u>                     |
| <br>              |                                      |  |   |
| \$ 6,055          | \$ 401,031                           | \$ -                                       | \$ 506,751                              |
| 400               | -                                    | -  | 13,760                                  |
| 107,305           | -                                    | -  | 367,460                                 |
| 45,467            | -                                    | -  | 45,467                                  |
| 20,457            | -                                    | 1,091                                      | 30,465                                  |
| <u>179,684</u>    | <u>401,031</u>                       | <u>1,091</u>                               | <u>963,903</u>                          |
| <br>              |                                      |  |   |
| -                 | -                                    | -  | 14,699                                  |
| -                 | -                                    | -  | 12,593                                  |
| -                 | -                                    | -  | 8,251                                   |
| -                 | -                                    | 158,982                                    | 158,982                                 |
| 272,210           | -                                    | -  | 670,822                                 |
| -                 | -                                    | 363,189                                    | 363,189                                 |
| <u>272,210</u>    | <u>-</u>                             | <u>522,171</u>                             | <u>1,228,536</u>                        |
| <br>              |                                      |  |   |
| <u>\$ 451,894</u> | <u>\$ 401,031</u>                    | <u>\$ 523,262</u>                          | <u>\$ 2,192,439</u>                     |

**CITY OF MANISTIQUE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2006**

|  |              |
|--|--------------|
| Total fund balances for governmental funds | \$ 1,228,536 |
|--|--------------|

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

|                              |    |                    |           |
|------------------------------|----|--------------------|-----------|
| Land                         | \$ | 100,331            |           |
| Land improvements            |    | 47,979             |           |
| Buildings                    |    | 785,265            |           |
| Machinery and equipment      |    | 523,972            |           |
| Vehicles                     |    | 623,110            |           |
| Infrastructure - road system |    | 5,737,819          |           |
| Accumulated depreciation     |    | <u>(3,226,117)</u> |           |
| Total capital assets         |    |                    | 4,592,359 |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

|                                    |    |                  |             |
|------------------------------------|----|------------------|-------------|
| Accrued interest on long-term debt | \$ | (39,941)         |             |
| Bonds payable                      |    | (3,475,000)      |             |
| Notes payable                      |    | (230,220)        |             |
| Landfill postclosure costs         |    | (540,000)        |             |
| Compensated absences               |    | <u>(118,097)</u> | (4,403,258) |

Deferred revenue is reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities has been removed from the statement of net assets.

|   |                            |
|---|----------------------------|
|   | <u>30,465</u>              |
| Total net assets of governmental activities | <u><u>\$ 1,448,102</u></u> |

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2006**

|  | General<br>Fund   | Major<br>Street   | Local<br>Street  |
|--|-------------------|-------------------|------------------|
| <b>REVENUES:</b>                       |                   |                   |                  |
| Federal sources                        | \$ 178,450        | \$ -              | \$ -             |
| State sources                          | 488,633           | 317,842           | 124,616          |
| Local sources                          | 26,005            | -                 | -                |
| Taxes                                  | 744,888           | -                 | -                |
| Recreation                             | 39,136            | -                 | -                |
| Public safety                          | 1,640             | -                 | -                |
| Charges for services                   | 479,230           | -                 | -                |
| Equipment rental                       | 232,779           | -                 | -                |
| Interest income                        | 12,766            | 6,645             | 2,040            |
| Miscellaneous                          | 73,595            | -                 | -                |
|  | <u>2,277,122</u>  | <u>324,487</u>    | <u>126,656</u>   |
| Total revenues                         |                   |                   |                  |
| <b>EXPENDITURES:</b>                   |                   |                   |                  |
| General government                     | 550,452           | -                 | -                |
| Public health and safety               | 664,656           | -                 | -                |
| Parks and recreation                   | 74,282            | -                 | -                |
| General public works                   | 366,493           | -                 | -                |
| Street system                          | -                 | 283,407           | 134,230          |
| Economic development                   | -                 | -                 | -                |
| Sanitary landfill                      | -                 | -                 | -                |
| Capital outlay                         | 400,335           | -                 | -                |
| Debt service:                          |                   |                   |                  |
| Principal                              | 63,322            | -                 | -                |
| Interest and other charges             | 5,283             | -                 | -                |
| Other                                  | 222,043           | -                 | -                |
|  | <u>2,346,866</u>  | <u>283,407</u>    | <u>134,230</u>   |
| Total expenditures                     |                   |                   |                  |
| Excess revenues (expenditures)         | <u>(69,744)</u>   | <u>41,080</u>     | <u>(7,574)</u>   |
| <b>OTHER FINANCING SOURCES (USES):</b> |                   |                   |                  |
| Loan proceeds                          | 133,500           | -                 | -                |
| Transfers in                           | -                 | -                 | 25,000           |
| Transfers out                          | (5,000)           | (25,000)          | -                |
|  | <u>128,500</u>    | <u>(25,000)</u>   | <u>25,000</u>    |
| Total other financing sources (uses)   |                   |                   |                  |
| Net changes in fund balances           | 58,756            | 16,080            | 17,426           |
| Fund balances - beginning              | 166,102           | 131,828           | 43,963           |
| Fund balances - ending                 | <u>\$ 224,858</u> | <u>\$ 147,908</u> | <u>\$ 61,389</u> |

See accompanying notes to financial statements.



| DDA Fund    | CDBG<br>Downtown<br>Project | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------|-----------------------------|-----------------------------------|--------------------------------|
| \$ -        | \$ 579,351                  | \$ -                              | \$ 757,801                     |
| 15,000      | -                           | -                                 | 946,091                        |
| 12,000      | -                           | -                                 | 38,005                         |
| 739,773     | -                           | 180,127                           | 1,664,788                      |
| -           | -                           | -                                 | 39,136                         |
| -           | -                           | -                                 | 1,640                          |
| -           | -                           | -                                 | 479,230                        |
| -           | -                           | -                                 | 232,779                        |
| 21,401      | -                           | 9,430                             | 52,282                         |
| 36,853      | -                           | 3,300                             | 113,748                        |
| 825,027     | 579,351                     | 192,857                           | 4,325,500                      |
| -           | -                           | -                                 | 550,452                        |
| -           | -                           | -                                 | 664,656                        |
| -           | -                           | -                                 | 74,282                         |
| -           | -                           | -                                 | 366,493                        |
| -           | -                           | -                                 | 417,637                        |
| 252,722     | -                           | -                                 | 252,722                        |
| -           | -                           | 52,558                            | 52,558                         |
| 36,474      | 1,243,846                   | 2,612                             | 1,683,267                      |
| -           | -                           | 230,000                           | 293,322                        |
| -           | -                           | 165,161                           | 170,444                        |
| -           | -                           | -                                 | 222,043                        |
| 289,196     | 1,243,846                   | 450,331                           | 4,747,876                      |
| 535,831     | (664,495)                   | (257,474)                         | (422,376)                      |
| 465,000     | -                           | -                                 | 598,500                        |
| -           | 699,597                     | 258,573                           | 983,170                        |
| (1,018,170) | -                           | -                                 | (1,048,170)                    |
| (553,170)   | 699,597                     | 258,573                           | 533,500                        |
| (17,339)    | 35,102                      | 1,099                             | 111,124                        |
| 289,549     | (35,102)                    | 521,072                           | 1,117,412                      |
| \$ 272,210  | \$ -                        | \$ 522,171                        | \$ 1,228,536                   |

**CITY OF MANISTIQUE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2006**

|   |    |         |
|---|----|---------|
| Net changes in fund balances - total governmental funds | \$ | 111,124 |
|---|----|---------|

The change in net assets reported for governmental activities in the statement of activities is different because:

|  |  |         |
|--|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,107,219) exceeded depreciation expense (\$293,293) . |  | 813,926 |
|--|--|---------|

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

|                            |         |  |         |
|----------------------------|---------|--|---------|
| Due to Manistique Papers   | 73,326  |  |         |
| Bond principal             | 230,000 |  |         |
| Note principal             | 52,060  |  |         |
| Lease payable              | 11,242  |  |         |
| Landfill postclosure costs | 20,000  |  | 386,628 |

|  |  |          |
|--|--|----------|
| Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. |  | (12,426) |
|--|--|----------|

|   |  |           |
|---|--|-----------|
| Proceeds from the issuance of long-term debt which are recorded as revenue in the governmental funds but are recorded as a liability in the Statement of Net Assets |  | (598,500) |
|---|--|-----------|

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

|  |          |            |         |
|--|----------|------------|---------|
| Compensated absences                             | 7,005    |            |         |
| Accrued interest on debt                         | (10,375) |            | (3,370) |
| Changes in net assets of governmental activities |          | \$ 697,382 |         |

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2006**

|   | Ambulance<br>Service | Waste Water<br>Utility | Water<br>Utility    |
|---|----------------------|------------------------|---------------------|
| <b>ASSETS</b>                                   |                      |                        |                     |
| Current assets:                                 |                      |                        |                     |
| Cash and cash equivalents:                      |                      |                        |                     |
| Restricted                                      | \$ -                 | \$ 228,079             | \$ 129,406          |
| Unrestricted                                    | 121,906              | 121,668                | 178,367             |
| Receivables:                                    |                      |                        |                     |
| Accounts  | 75,275               | -                      | -                   |
| Utilities                                       | -                    | 165,616                | 122,687             |
| Due from other funds                            | -                    | 225,363                | -                   |
| Due from other governmental units               | -                    | 4,674                  | 3,335               |
| Prepaid expense                                 | -                    | -                      | 10,000              |
| Inventory                                       | -                    | 5,537                  | 2,612               |
| Total current assets                            | <u>197,181</u>       | <u>750,937</u>         | <u>446,407</u>      |
| Noncurrent assets:                              |                      |                        |                     |
| Capital assets (net)                            | <u>215,713</u>       | <u>6,685,651</u>       | <u>6,086,930</u>    |
| Total assets                                    | <u>\$ 412,894</u>    | <u>\$ 7,436,588</u>    | <u>\$ 6,533,337</u> |
| <b>LIABILITIES</b>                              |                      |                        |                     |
| Current liabilities:                            |                      |                        |                     |
| Accounts payable                                | \$ 4,781             | \$ 1,577               | \$ 3,624            |
| Accrued payroll                                 | 387                  | 5,096                  | 4,892               |
| Accrued interest                                | -                    | 45,375                 | 8,811               |
| Due to other funds                              | 14,101               | 7,750                  | 13,606              |
| Deferred revenue                                | -                    | -                      | -                   |
| Customer deposits                               | -                    | 2,863                  | 5,891               |
| Compensated absences                            | -                    | 3,479                  | 5,182               |
| Bonds payable                                   | -                    | 31,000                 | 126,000             |
| Notes payable                                   | 14,000               | -                      | -                   |
| Total current liabilities                       | <u>33,269</u>        | <u>97,140</u>          | <u>168,006</u>      |
| Noncurrent liabilities:                         |                      |                        |                     |
| Compensated absences                            | -                    | 8,118                  | 12,093              |
| Bonds payable                                   | -                    | 2,389,000              | 2,398,000           |
| Notes payable                                   | 33,000               | -                      | -                   |
| Total noncurrent liabilities                    | <u>33,000</u>        | <u>2,397,118</u>       | <u>2,410,093</u>    |
| Total liabilities                               | <u>\$ 66,269</u>     | <u>\$ 2,494,258</u>    | <u>\$ 2,578,099</u> |
| <b>NET ASSETS</b>                               |                      |                        |                     |
| Invested in capital assets, net of related debt | \$ 168,713           | \$ 4,265,651           | \$ 3,562,930        |
| Unrestricted                                    | <u>177,912</u>       | <u>676,679</u>         | <u>392,308</u>      |
| Total net assets                                | <u>\$ 346,625</u>    | <u>\$ 4,942,330</u>    | <u>\$ 3,955,238</u> |

See accompanying notes to financial statements.

| Nonmajor<br>Enterprise<br>Fund<br><u>Recreation Building</u> |                | Total<br>Enterprise<br>Funds |                   |
|--|----------------|------------------------------|-------------------|
| \$   | 3,290          | \$                           | 360,775           |
|  | 645            |                              | 422,586           |
|  | -              |                              | 75,275            |
|  | -              |                              | 288,303           |
|  | -              |                              | 225,363           |
|  | -              |                              | 8,009             |
|  | -              |                              | 10,000            |
|  | -              |                              | 8,149             |
|  | <u>3,935</u>   |                              | <u>1,398,460</u>  |
|  | <u>741,778</u> |                              | <u>13,730,072</u> |
| \$   | <u>745,713</u> | \$                           | <u>15,128,532</u> |
| \$   | 877            | \$                           | 10,859            |
|  | -              |                              | 10,375            |
|  | -              |                              | 54,186            |
|  | -              |                              | 35,457            |
|  | 1,790          |                              | 1,790             |
|  | -              |                              | 8,754             |
|  | -              |                              | 8,661             |
|  | -              |                              | 157,000           |
|  | <u>2,776</u>   |                              | <u>16,776</u>     |
|  | <u>5,443</u>   |                              | <u>303,858</u>    |
|  | -              |                              | 20,211            |
|  | -              |                              | 4,787,000         |
|  | <u>2,868</u>   |                              | <u>35,868</u>     |
|  | <u>2,868</u>   |                              | <u>4,843,079</u>  |
| \$   | <u>8,311</u>   | \$                           | <u>5,146,937</u>  |
| \$   | 736,134        | \$                           | 8,733,428         |
|  | <u>1,268</u>   |                              | <u>1,248,167</u>  |
| \$   | <u>737,402</u> | \$                           | <u>9,981,595</u>  |

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2006**

|   | Ambulance<br>Service | Waste Water<br>Utility | Water<br>Utility |
|---|----------------------|------------------------|------------------|
| <b>OPERATING REVENUES:</b>                          |                      |                        |                  |
| Charges for services                                | \$ 362,430           | \$ 827,409             | \$ 886,479       |
| Miscellaneous                                       | 1,668                | 19,660                 | 18,584           |
| Total operating revenue                             | 364,098              | 847,069                | 905,063          |
| <b>OPERATING EXPENSES:</b>                          |                      |                        |                  |
| Salaries  | 119,040              | 135,748                | 124,673          |
| Fringe benefits                                     | 44,151               | 105,410                | 120,557          |
| General administration                              | -                    | 68,870                 | 69,461           |
| Supplies  | 4,534                | 28,315                 | 45,753           |
| Contracted services                                 | 10,158               | 40,845                 | 24,670           |
| Safety  | -                    | 217                    | 972              |
| Repairs and maintenance                             | 8,009                | 78,776                 | 81,923           |
| Utilities   | 4,437                | 136,351                | 72,614           |
| Communications                                      | 229                  | 3,637                  | 3,451            |
| Printing and publishing                             | -                    | -                      | 1,152            |
| Transportation                                      | 9,535                | 2,900                  | 2,030            |
| Insurance   | 6,968                | 21,139                 | 21,139           |
| Conference and workshops                            | 3,814                | 481                    | 898              |
| Equipment rental                                    | -                    | -                      | -                |
| Uncollectible accounts                              | 97,646               | -                      | -                |
| Other services and charges                          | -                    | 47,785                 | 19,569           |
| Depreciation  | 39,789               | 264,971                | 229,573          |
| Miscellaneous                                       | -                    | 15,556                 | 24,668           |
| Total operating expenses                            | 348,310              | 951,001                | 843,103          |
| Operating income (loss)                             | 15,788               | (103,932)              | 61,960           |
| <b>NONOPERATING REVENUES (EXPENSES):</b>            |                      |                        |                  |
| Interest income                                     | 2,471                | 5,629                  | 6,366            |
| Interest expense                                    | (7,210)              | (109,013)              | (107,879)        |
| Total nonoperating revenue (expense)                | (4,739)              | (103,384)              | (101,513)        |
| Income (loss) before transfers<br>and contributions | 11,049               | (207,316)              | (39,553)         |
| Capital contributions                               | -                    | 346,035                | 205,760          |
| Transfer in   | -                    | 60,000                 | -                |
| Change in net assets                                | 11,049               | 198,719                | 166,207          |
| Total net assets - beginning                        | 335,576              | 4,743,611              | 3,789,031        |
| Total net assets - ending                           | \$ 346,625           | \$ 4,942,330           | \$ 3,955,238     |

See accompanying notes to financial statements.

| Nonmajor<br>Enterprise<br>Fund<br><u>Recreation Building</u> | Total<br>Enterprise<br>Funds |
|--|------------------------------|
| \$ 58,499  | \$ 2,134,817                 |
| 65   | 39,977                       |
| 58,564   | 2,174,794                    |
| 18,094   | 397,555                      |
| 1,504  | 271,622                      |
| -  | 138,331                      |
| 4,301  | 82,903                       |
| 725  | 76,398                       |
| -  | 1,189                        |
| 8,976  | 177,684                      |
| 20,074   | 233,476                      |
| 393  | 7,710                        |
| 520  | 1,672                        |
| -  | 14,465                       |
| 2,829  | 52,075                       |
| -  | 5,193                        |
| 548  | 548                          |
| -  | 97,646                       |
| -  | 67,354                       |
| 31,341   | 565,674                      |
| 3,096  | 43,320                       |
| 92,401   | 2,234,815                    |
| (33,837)   | (60,021)                     |
| 166  | 14,632                       |
| (233)  | (224,335)                    |
| (67)   | (209,703)                    |
| (33,904)   | (269,724)                    |
| 12,655   | 564,450                      |
| 5,000  | 65,000                       |
| (16,249)   | 359,726                      |
| 753,651  | 9,621,869                    |
| \$ 737,402   | \$ 9,981,595                 |

**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2006

|  | Ambulance<br>Service | Waste Water<br>Utility | Water<br>Utility  |
|--|----------------------|------------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                      |                        |                   |
| Receipts from customers  | \$ 359,639           | \$ 822,786             | \$ 876,885        |
| Payments to suppliers  | (134,053)            | (449,261)              | (368,255)         |
| Payments for wages and related benefits  | (162,804)            | (245,414)              | (248,915)         |
| Other receipts (payments)  | 1,668                | 19,660                 | 18,584            |
|  | <u>64,450</u>        | <u>147,771</u>         | <u>278,299</u>    |
| Net cash provided (used) by operating activities   |                      |                        |                   |
| <b>CASH FLOWS FROM NONCAPITAL<br/>FINANCING ACTIVITIES</b>   |                      |                        |                   |
| Operating transfers in (out)   | -                    | 60,000                 | -                 |
| Cash received (paid) on customer deposits  | -                    | -                      | (893)             |
|  | <u>-</u>             | <u>60,000</u>          | <u>(893)</u>      |
| Net cash provided (used) by noncapital<br>financing activities                                     |                      |                        |                   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                                |                      |                        |                   |
| Purchase of fixed assets   | -                    | (437,061)              | (251,935)         |
| Capital contributions  | -                    | 346,035                | 205,760           |
| Principal paid on debt instruments   | (55,965)             | (30,000)               | (127,500)         |
| Interest paid on debt instruments  | (7,210)              | (109,576)              | (108,174)         |
| Proceeds from debt issuance  | -                    | -                      | -                 |
|  | <u>(63,175)</u>      | <u>(230,602)</u>       | <u>(281,849)</u>  |
| Net cash provided (used) by capital and<br>related financing activities                            |                      |                        |                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                      |                        |                   |
| Interest earnings  | 2,471                | 5,629                  | 6,366             |
|  | <u>3,746</u>         | <u>(17,202)</u>        | <u>1,923</u>      |
| Net increase (decrease) in cash and equivalents  |                      |                        |                   |
| Cash and equivalents, beginning of year  | 118,160              | 366,949                | 305,850           |
|  | <u>118,160</u>       | <u>366,949</u>         | <u>305,850</u>    |
| Cash and equivalents, end of year  | \$ 121,906           | \$ 349,747             | \$ 307,773        |
|  | <u>\$ 121,906</u>    | <u>\$ 349,747</u>      | <u>\$ 307,773</u> |
| <b>Reconciliation of operating income (loss) to net<br/>cash provided by operating activities:</b> |                      |                        |                   |
| Operating income (loss)  | \$ 15,788            | \$ (103,932)           | \$ 61,960         |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by operating activities:  |                      |                        |                   |
| Depreciation expense   | 39,789               | 264,971                | 229,573           |
| Changes in assets and liabilities:   |                      |                        |                   |
| (Increase) decrease in receivables   | (2,791)              | (4,623)                | (9,594)           |
| (Increase) decrease in prepaid expense   | -                    | -                      | (10,000)          |
| Increase (decrease) in accounts payable  | (844)                | (1,113)                | (169)             |
| Increase (decrease) in accrued payroll   | 387                  | (4,256)                | (3,685)           |
| Increase (decrease) in deferred revenue  | -                    | -                      | -                 |
| Increase (decrease) in due to other funds  | 12,121               | (3,276)                | 10,214            |
|  | <u>12,121</u>        | <u>(3,276)</u>         | <u>10,214</u>     |
| Net cash provided by operating activities  | \$ 64,450            | \$ 147,771             | \$ 278,299        |
|  | <u>\$ 64,450</u>     | <u>\$ 147,771</u>      | <u>\$ 278,299</u> |

See accompanying notes to financial statements.

| Nonmajor<br>Enterprise<br>Fund<br><u>Recreation Building</u> | Total<br>Enterprise<br>Funds |
|--|------------------------------|
| \$ 60,289  | \$ 2,119,599                 |
| (41,441)   | (993,010)                    |
| (19,663)   | (676,796)                    |
| 65   | 39,977                       |
| <u>(750)</u>   | <u>489,770</u>               |
| 5,000  | 65,000                       |
| -  | (893)                        |
| <u>5,000</u>   | <u>64,107</u>                |
| (12,655)   | (701,651)                    |
| 12,655   | 564,450                      |
| (2,686)  | (216,151)                    |
| (303)  | (225,263)                    |
| -  | -                            |
| <u>(2,989)</u>   | <u>(578,615)</u>             |
| 166  | 14,632                       |
| 1,427  | (10,106)                     |
| 2,508  | 793,467                      |
| <u>\$ 3,935</u>  | <u>\$ 783,361</u>            |
| \$ (33,837)  | \$ (60,021)                  |
| 31,341   | 565,674                      |
| -  | (17,008)                     |
| -  | (10,000)                     |
| 21   | (2,105)                      |
| (65)   | (7,619)                      |
| 1,790  | 1,790                        |
| -  | 19,059                       |
| <u>\$ (750)</u>  | <u>\$ 489,770</u>            |



**CITY OF MANISTIQUE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2006**

|                                       |                     |
|---------------------------------------|---------------------|
|                                       | <u>Agency Funds</u> |
| <b>ASSETS</b>                         |                     |
| Cash and cash equivalents             | <u>\$ 2,664</u>     |
| <b>LIABILITIES</b>                    |                     |
| Due to other units governmental units | <u>\$ 2,664</u>     |

See accompanying notes to financial statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(1) REPORTING ENTITY**

The City of Manistique was incorporated under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body establishing governmental accounting and financial reporting principles. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis*.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB Statement 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. In addition, State of Michigan, Department of Treasury pronouncements were considered in the determination process. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Component Units – In conformity with U.S. generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as a blended component unit or as a discretely presented component unit.

Blended Component Unit – The City has one component unit in which the financial data has been blended with the primary government financial statement.

Downtown Development Authority – For financial reporting purposes the Downtown Development Authority is reported as if it were part of the City's operations because the City Council maintains budgetary control and its purpose is to promote and provide financial support to the downtown district.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Discretely Presented Component Unit – The component unit column includes the financial data of the Manistique Housing Commission, which is reported in a separate column to emphasize that they are legally separate from the City.

Manistique Housing Commission – The Housing Commission provides housing to low income and elderly citizens of the City of Manistique. The Housing Commission board is appointed by the City Council and therefore the Housing Commission is determined to be a component unit of the City of Manistique because of the control that the City can exercise over the Housing Commission activities. The Housing Commission, which has a fiscal year end of December 31, issues its own separately audited financial statements, which may be obtained at:

Manistique Housing Commission  
400 East Lake Shore Drive  
Manistique, Michigan 49854

The accounting policies of the City of Manistique conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**(2) BASIS OF PRESENTATION**

**Government-Wide Financial Statements:**

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

**Fund Financial Statements:**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The DDA Fund which is used to account for the support and improvement of the City's downtown district.

The CDBG Downtown Project Fund is used to account for grant proceeds and construction expenditures for an infrastructure project downtown.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Ambulance Service Fund accounts for ambulance services provided to the citizens of the City of Manistique.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Manistique.

The Water Utility Fund accounts for water services provided to the citizens of the City of Manistique.

The funds of the City are described below:

**Governmental Funds**

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Project Fund – The Landfill Construction Fund is one of the City's capital project funds and is used to account for the costs associated with capping and monitoring the landfill site as well as collecting tax revenue for the purpose of paying the annual debt service requirements of the landfill bond which was issued for the purpose of closing the landfill. The CDBG Downtown Project is the City's other capital project fund which accounts for the activity relating to a construction project in the City's downtown area.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

**Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

**Fiduciary Funds**

Agency Fund - The Armory Trust and the Water Tower Trust funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities as well as the proprietary fund financial statements are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

**(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE**

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.



CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. Inventory – Materials inventory in the Waste Water and Water utility funds and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                         |               |
|-------------------------|---------------|
| Buildings               | 15 – 50 years |
| Machinery and equipment | 4 – 15 years  |
| Infrastructure          | 20 – 50 years |

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

- f. Restricted Assets – Restricted assets include cash and equivalents which have been restricted by statute, third party requirements or by contract.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$8,917 and \$1,091 in the General Fund and Landfill Construction Fund for personal property taxes, \$20,457 in the DDA Fund for amounts due the DDA from other taxing units for undercapture of DDA taxes. These amounts have been deemed measurable, but not currently available.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Equity Classification

*Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

**(5) REVENUES AND EXPENDITURES/EXPENSES**

**Revenues**

*Government-Wide Statements*

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

*Fund Statements*

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

**Expenses/Expenditures**

*Government-Wide Statements*

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

*Fund Statements*

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

**Other Financing Sources (Uses)**

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

**(6) OTHER SIGNIFICANT ACCOUNTING POLICIES**

**Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The City will hold a public hearing on the proposed budget prior to its final adoption. City Council shall adopt, by resolution, a budget for the next fiscal year no later than the second regular meeting in May.
- c. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in June. Individual amendments were material in relation to the original appropriations which were amended.
- d. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

**Property Taxes**

Property taxes levied attach as an enforceable lien on property. The City's annual property tax on real and personal property within the City is levied on July 1, payable by September 15, and is based on the taxable valuation of the property on the preceding December 31. Unpaid property taxes become delinquent on March 1, and all delinquent real property taxes are purchased by the County Treasurer. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District and the County. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE**

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

|              |    |        |
|--------------|----|--------|
| General Fund | \$ | 20,198 |
| Local Street |    | 991    |

CITY OF MANISTIQUE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE C – CASH AND EQUIVALENTS**

**City**

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

|  |    |                |                     |
|--|----|----------------|---------------------|
| Imprest Cash   |    | \$             | 80                  |
| Deposits:  |    |                |                     |
| Checking accounts  | \$ | 1,221,393      |                     |
| Savings accounts   |    | 798,669        |                     |
| Certificates of Deposit                                  |    | <u>272,397</u> | <u>2,292,459</u>    |
| Total cash and equivalents                               |    |                | <u>\$ 2,292,539</u> |
| Government-wide Statement of<br>Net Assets Presentation: |    |                |                     |
| Unrestricted   | \$ | 1,748,613      |                     |
| Restricted   |    | <u>541,262</u> | \$ 2,289,875        |
| Statement of Fiduciary Net Assets                        |    |                | <u>2,664</u>        |
| Total cash and equivalents                               |    |                | <u>\$ 2,292,539</u> |

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).



CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE C – CASH AND EQUIVALENTS (continued)

- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

**NOTE C – CASH AND EQUIVALENTS (continued)**

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

*Interest Rate Risk* – The City carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

*Credit Risk* – The City did not hold any deposits in investments that require credit risk disclosure.

*Custodial Credit Risk–Deposits* – Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned. At June 30, 2006 the City held \$2,427,225 in bank deposits. Of this amount \$2,002,294 was uninsured and uncollateralized.

*Concentration of Credit Risk* – The City has no significant concentration of credit risk due to the fact that all deposits are in local financial institutions.

*Foreign Currency Risk* – The City has no foreign currency risk as it has no deposits in foreign currency.

The City's investment policy is silent in respect to the above risks, however, it does state that, "Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio."

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE C – CASH AND EQUIVALENTS (continued)**

Cash has been restricted within the listed funds as follows:

**Governmental Activities:**

General Fund:

|                         |               |           |
|-------------------------|---------------|-----------|
| PSO fantasy project     | \$ 598        |           |
| Christmas donation      | 223           |           |
| Landfill perpetual care | 8,251         |           |
| Fire truck donation     | <u>12,433</u> |           |
| Total General Fund      |               | \$ 21,505 |

Permanent Fund:

|                               |                |                   |
|-------------------------------|----------------|-------------------|
| Cemetery Perpetual Care       | <u>158,982</u> |                   |
| Total Governmental Activities |                | <u>\$ 180,487</u> |

**Business-Type Activities:**

Waste Water Utility:

|                                   |            |  |
|-----------------------------------|------------|--|
| 1999 bond reserve                 | \$ 161,875 |  |
| 1999 bond and interest redemption | 35,999     |  |
| Bond proceeds                     | 30,205     |  |

Water Utility:

|                             |        |  |
|-----------------------------|--------|--|
| Bond proceeds               | 1,900  |  |
| FMHA bond reserve           | 94,184 |  |
| Jr lien bond and redemption | 33,322 |  |

Recreation Building:

|           |              |  |
|-----------|--------------|--|
| Donations | <u>3,290</u> |  |
|-----------|--------------|--|

|                                |  |                   |
|--------------------------------|--|-------------------|
| Total Business-Type Activities |  | <u>\$ 360,775</u> |
|--------------------------------|--|-------------------|

**Manistique Housing Commission**

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available. The following information for the Housing Commission is as of December 31, 2005.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE C – CASH AND EQUIVALENTS (continued)**

Cash and equivalents consisted of:

|                         |                   |
|-------------------------|-------------------|
| Petty cash              | \$ 200            |
| Cash in checking        | 72,153            |
| Cash in savings         | 10,383            |
| Certificates of deposit | <u>93,086</u>     |
| Total                   | <u>\$ 175,822</u> |

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. The Commission's cash and equivalents were fully insured at December 31, 2005.

**NOTE D – INVESTMENTS**

**Manistique Housing Commission**

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

| Investment Type         | Fair Value        | Investment Maturities in Years |                  |
|-------------------------|-------------------|--------------------------------|------------------|
|                         |                   | Less Than 1 Year               | 1-5 Years        |
| Certificate of deposits | <u>\$ 198,509</u> | <u>\$ 140,708</u>              | <u>\$ 57,801</u> |

Investments are recorded at fair market value, which is based on quoted market prices.

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. The Commission's cash and equivalents were fully insured at December 31, 2005.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE D – INVESTMENTS (continued)**

*Credit Risk* – Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

*Concentration of Credit Risk* – The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

|   |                   |
|---|-------------------|
| mBank, Manistique, MI                   | \$ 52,423         |
| State Savings Bank, Manistique, MI      | 30,991            |
| Manistique Credit Union, Manistique, MI | 57,801            |
| Limestone Bank, Manistique, MI          | <u>57,294</u>     |
| Total                                   | <u>\$ 198,509</u> |

**NOTE E – ACCOUNTS RECEIVABLE**

**Business-Type Activities:**

1. Ambulance Fund – The City has established a reserve for uncollectable accounts. The gross amount of the accounts receivable for the Ambulance Fund is \$106,021 and the allowance for uncollectable accounts was \$30,746, leaving a net accounts receivable of \$75,275.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE F – CAPITAL ASSETS**

**City**

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended June 30, 2006, was as follows:

|   | Balance at<br>July 1, 2005 | Additions  | Disposals | Balance at<br>June 30, 2006 |
|---|----------------------------|------------|-----------|-----------------------------|
| Governmental activities:                    |                            |            |           |                             |
| Capital assets not being depreciated:       |                            |            |           |                             |
| Land  | \$ 81,000                  | \$ 19,330  | \$ -      | \$ 100,330                  |
| Capital assets being depreciated:           |                            |            |           |                             |
| Land improvements                           | 47,979                     | -          | -         | 47,979                      |
| Buildings                                   | 760,733                    | 24,532     | -         | 785,265                     |
| Machinery and equipment                     | 440,215                    | 83,757     | -         | 523,972                     |
| Vehicles                                    | 392,629                    | 230,481    | -         | 623,110                     |
| Infrastructure-road system                  | 4,988,700                  | 749,119    | -         | 5,737,819                   |
| Total depreciable assets                    | 6,630,256                  | 1,087,889  | -         | 7,718,145                   |
| Total capital assets                        | 6,711,256                  | 1,107,219  | -         | 7,818,475                   |
| Less accumulated depreciation:              |                            |            |           |                             |
| Land improvements                           | 9,596                      | 2,399      | -         | 11,995                      |
| Buildings                                   | 341,595                    | 18,263     | -         | 359,858                     |
| Machinery and equipment                     | 178,731                    | 28,759     | -         | 207,490                     |
| Vehicles                                    | 116,671                    | 44,045     | -         | 160,716                     |
| Infrastructure-road system                  | 2,286,230                  | 199,827    | -         | 2,486,057                   |
| Total accumulated depreciation              | 2,932,823                  | 293,293    | -         | 3,226,116                   |
| Net depreciable capital assets              | 3,697,433                  | 794,596    | -         | 4,492,029                   |
| Governmental activities capital assets, net | \$ 3,778,433               | \$ 813,926 | \$ -      | \$ 4,592,359                |

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE F – CAPITAL ASSETS (continued)**

|  | Balance at<br>July 1, 2005 | Additions  | Disposals | Balance at<br>June 30, 2006 |
|--|----------------------------|------------|-----------|-----------------------------|
| Business-type activities:                    |                            |            |           |                             |
| Capital assets not being depreciated:        |                            |            |           |                             |
| Land   | \$ 2,139                   | \$ -       | \$ -      | \$ 2,139                    |
| Capital assets being depreciated:            |                            |            |           |                             |
| Land improvements                            | 58,996                     | -          | -         | 58,996                      |
| Buildings                                    | 833,022                    | 33,818     | -         | 866,840                     |
| Machinery and equipment                      | 1,135,382                  | 8,929      | -         | 1,144,311                   |
| Distribution/collection system               | 20,192,474                 | 658,904    | -         | 20,851,378                  |
| Total depreciable assets                     | 22,219,874                 | 701,651    | -         | 22,921,525                  |
| Total capital assets                         | 22,222,013                 | 701,651    | -         | 22,923,664                  |
| Less accumulated depreciation:               |                            |            |           |                             |
| Land improvements                            | 20,080                     | 3,972      | -         | 24,052                      |
| Buildings                                    | 138,251                    | 22,875     | -         | 161,126                     |
| Machinery and equipment                      | 647,216                    | 97,416     | -         | 744,632                     |
| Distribution/collection system               | 7,822,371                  | 441,411    | -         | 8,263,782                   |
| Total accumulated depreciation               | 8,627,918                  | 565,674    | -         | 9,193,592                   |
| Net depreciable capital assets               | 13,591,956                 | 135,977    | -         | 13,727,933                  |
| Business-type activities capital assets, net | \$ 13,594,095              | \$ 135,977 | \$ -      | \$ 13,730,072               |

CITY OF MANISTIQUE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE F – CAPITAL ASSETS (continued)**

Depreciation expense was charged to governmental activities as follows:

|   |                   |
|---|-------------------|
| Governmental activities:                            |                   |
| General government                                  | \$ 30,050         |
| Public health and safety                            | 16,445            |
| Parks and recreation                                | 3,163             |
| General public works                                | 45,204            |
| Street system                                       | <u>198,431</u>    |
| Total governmental activities depreciation expense  | <u>\$ 293,293</u> |
| Business-type activities:                           |                   |
| Ambulance   | \$ 39,789         |
| Recreation building                                 | 31,341            |
| Waste water utility                                 | 264,971           |
| Water utility                                       | <u>229,573</u>    |
| Total business-type activities depreciation expense | <u>\$ 565,674</u> |

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$5,000 or more as of July 1, 2003.



**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE F – CAPITAL ASSETS (continued)**

**Manistique Housing Commission**

A summary of capital assets as of December 31, 2005 is as follows:

|                            | Balance at<br>January 1, 2005 | Additions         | Disposals         | Balance at<br>December 31, 2005 |
|----------------------------|-------------------------------|-------------------|-------------------|---------------------------------|
| Land and improvements      | \$ 268,029                    | \$ -              | \$ -              | \$ 268,029                      |
| Buildings and improvements | 2,890,238                     | 132,183           | -                 | 3,022,421                       |
| Equipment                  | 114,849                       | -                 | -                 | 114,849                         |
| Construction in progress   | 7,190                         | 124,993           | 132,183           | -                               |
|                            | <u>3,280,306</u>              | <u>\$ 257,176</u> | <u>\$ 132,183</u> | <u>3,405,299</u>                |
| Total capital assets       | 3,280,306                     | \$ 257,176        | \$ 132,183        | 3,405,299                       |
| Accumulated depreciation   | <u>2,468,078</u>              | <u>\$ 132,026</u> | <u>\$ -</u>       | <u>2,600,104</u>                |
| Net capital assets         | <u>\$ 812,228</u>             |                   |                   | <u>\$ 805,195</u>               |

Depreciation expense for the year was \$132,026.

**NOTE G – RETIREMENT PLANS**

**City**

**MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM**

Plan Description – The City of Manistique participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

## CITY OF MANISTIQUE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

#### **NOTE G – RETIREMENT PLANS (continued)**

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General division has adopted benefit B-4, which provides for an annual retirement benefit, payable monthly for life, in an amount equal to the sum of 2.5% of a member's final five-year average compensation. The Police/Fire division has adopted benefit B-4. Under benefit B-4, employees shall receive 2.5% of their five year final compensation, with a maximum benefit of 80% of final average compensation. The Police/Non-Union division has adopted benefit B-4, by which employees shall receive 2.5% of their three-year final compensation, with a maximum benefit of 80% of final average compensation.

The General, Police/Fire and Police/Non-Union divisions have adopted post-retirement adjustment benefit E-2 which provides automatic 2.5% annual non-compounded benefit increases to retiree's and their beneficiaries who retired on or after the effective date of benefit E-2. Increase is limited to increases in the consumers price index.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost actuarial method was used to determine the entries at disclosure.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE G – RETIREMENT PLANS (continued)**

**GASB 25 INFORMATION (AS OF 12/31/05)**

|  |                     |
|--|---------------------|
| Actuarial Accrued Liability:   |                     |
| Retirees and beneficiaries currently receiving benefits                                | \$ 5,516,291        |
| Terminated employees not yet receiving benefits  | 1,077               |
| Current Employees:   |                     |
| Accumulated employee contributions including allocated investment income               | 28,059              |
| Employer financed  | <u>3,125,783</u>    |
| Total actuarial liability  | 8,671,210           |
| Net assets available for benefits, at actuarial value<br>(market value is \$4,802,856) | <u>4,932,840</u>    |
| Unfunded (overfunded) actuarial accrued liability                                      | <u>\$ 3,738,370</u> |

**GASB 27 INFORMATION (AS OF 12/31/05)**

|                                    |              |
|------------------------------------|--------------|
| Fiscal year beginning              | July 1, 2007 |
| Annual required contribution (ARC) | \$ 313,620   |
| Amortization factor used           | 0.053632     |

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2005 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

| <u>Year Ended<br/>June 30,</u> | <u>Annual Pension<br/>Cost (APC)</u> | <u>Percentage of<br/>APC Contributed</u> | <u>Net Pension<br/>Obligation</u> |
|--------------------------------|--------------------------------------|--|-----------------------------------|
| 2003                           | \$ 227,537                           | 100%                                     | -                                 |
| 2004                           | 202,507                              | 100%                                     | -                                 |
| 2005                           | 231,330                              | 100%                                     | -                                 |

The City was required to contribute \$261,587 for the year ended June 30, 2006. Payments were based on contribution calculations made by MERS.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE G – RETIREMENT PLANS (continued)**

The City was required to contribute at an actuarially determined rate, which is a percentage of covered payroll as listed below:

| Valuation Division | 2006 * | Contribution Percentage |        |  | 2003 * |
|--------------------|--------|-------------------------|--------|--|--------|
|                    |        | 2005 *                  | 2004 * |  |        |
| General            | 27.67% | 23.55%                  | 16.19% |  | 13.48% |
| Police/Fire        | 26.08% | 24.12%                  | 23.04% |  | 27.18% |
| Police - Non Union | 60.45% | 57.66%                  | 24.88% |  | 20.39% |

\* Represents the actuarial required contribution for the fiscal year ended.

**Aggregate Accrued Liabilities – Comparative Schedule**

| Actuarial<br>Valuation<br>Date<br>December 31, | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a %<br>of Covered<br>Payroll |
|--|---------------------------------|--|---------------------------|-----------------|--------------------|--------------------------------------|
| 2003   | \$ 4,633,911                    | \$ 7,096,974                               | \$ 2,463,063              | 65%             | \$ 1,172,887       | 210%                                 |
| 2004   | 4,769,762                       | 7,954,049                                  | 3,184,287                 | 60%             | 944,892            | 337%                                 |
| 2005   | 4,932,840                       | 8,671,210                                  | 3,738,370                 | 57%             | 1,002,244          | 373%                                 |

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**Manistique Housing Commission**

The Commission has established a SEP-IRA plan of which the Commission contributes 10% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year ended December 31, 2005 amounted to \$10,882.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE H – VESTED EMPLOYEE BENEFITS**

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations are limited based upon various criteria. Compensated absences in the amount of \$118,097 are reported under governmental activities and \$28,872 is reported under business-type activities in the Statement of Net Assets.

**NOTE I – POST-RETIREMENT HEALTH BENEFITS**

The City pays health insurance premiums for employees who retire under the terms of employment contracts or City policy, until the retiree reaches age 65 or becomes eligible for Medicare. The insurance premiums are financed on a pay-as-you-go basis and are recorded as expenditures when paid. The City has not recorded a liability in the Statement of Net Assets for future post-employment health care costs. The following is a summary of the post-employment health benefits:

| For the year ended<br>June 30, | Annual<br>Cost | Number of<br>Retirees Receiving<br>Benefits |
|--------------------------------|----------------|---|
| 2004                           | \$ 78,401      | 10  |
| 2005                           | 107,792        | 13  |
| 2006                           | 123,802        | 13  |

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE J – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

| Type of Debt                          | Balance<br>July 1, 2005 | Additions         | Deductions        | Balance<br>June 30,<br>2006 | Amounts<br>Due Within<br>One Year |
|---------------------------------------|-------------------------|-------------------|-------------------|-----------------------------|-----------------------------------|
| <b>Governmental Activities:</b>       |                         |                   |                   |                             |                                   |
| Note - snowplow trucks                | \$ 78,679               | \$ -              | \$ 38,732         | \$ 39,947                   | \$ 39,947                         |
| Note - M-TEC energy                   | 50,101                  | -                 | 8,567             | 41,534                      | 8,740                             |
| Note - 2005 DPW trucks                | 20,000                  | -                 | 4,761             | 15,239                      | 4,917                             |
| Note - 2006 dump truck                | -                       | 55,500            | -                 | 55,500                      | 17,673                            |
| Note - 2006 snow blower               | -                       | 78,000            | -                 | 78,000                      | 18,211                            |
| Lease - backhoe                       | 11,242                  | -                 | 11,242            | -                           | -                                 |
| DDA bonds - 1994                      | 365,000                 | -                 | 80,000            | 285,000                     | 90,000                            |
| DDA bonds - series II                 | 440,000                 | -                 | 75,000            | 365,000                     | 80,000                            |
| DDA bonds - 2001                      | 480,000                 | -                 | 30,000            | 450,000                     | 30,000                            |
| DDA bonds - 2005                      | -                       | 465,000           | -                 | 465,000                     | 150,000                           |
| Landfill bonds                        | 1,955,000               | -                 | 45,000            | 1,910,000                   | 55,000                            |
| Due to Manistique Papers              | 73,326                  | -                 | 73,326            | -                           | -                                 |
| Landfill postclosure cost             | 560,000                 | -                 | 20,000            | 540,000                     | 20,000                            |
| Compensated absences                  | 125,102                 | -                 | 7,005             | 118,097                     | 29,524                            |
| Total governmental<br>long-term debt  | <u>\$ 4,158,450</u>     | <u>\$ 598,500</u> | <u>\$ 393,633</u> | <u>\$ 4,363,317</u>         | <u>\$ 544,012</u>                 |
| <b>Business-type Activities:</b>      |                         |                   |                   |                             |                                   |
| Note - ambulance garage               | \$ 71,000               | \$ -              | \$ 24,000         | \$ 47,000                   | \$ 14,000                         |
| Note - ambulance                      | 31,965                  | -                 | 31,965            | -                           | -                                 |
| Note - recreation                     | 8,330                   | -                 | 2,686             | 5,644                       | 2,776                             |
| Bond - 1999 waste water               | 2,450,000               | -                 | 30,000            | 2,420,000                   | 31,000                            |
| Bonds - 1995 water                    | 1,765,000               | -                 | 30,000            | 1,735,000                   | 30,000                            |
| Bonds - 2004 water                    | 886,500                 | -                 | 97,500            | 789,000                     | 96,000                            |
| Compensated absences                  | 42,487                  | -                 | 13,615            | 28,872                      | 8,661                             |
| Total business-type<br>long-term debt | <u>\$ 5,255,282</u>     | <u>\$ -</u>       | <u>\$ 229,766</u> | <u>\$ 5,025,516</u>         | <u>\$ 182,437</u>                 |

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE J – LONG-TERM DEBT (continued)**

Debt service requirements on long-term debt at June 30, 2006 are as follows:

| Year Ending<br>June 30, | Governmental Activities |                  |                     |                     |
|-------------------------|-------------------------|------------------|---------------------|---------------------|
|                         | Notes Payable           |                  | Bonds Payable       |                     |
|                         | Principal               | Interest         | Principal           | Interest            |
| 2007                    | \$ 89,488               | \$ 8,241         | \$ 405,000          | \$ 179,030          |
| 2008                    | 51,571                  | 4,916            | 430,000             | 146,963             |
| 2009                    | 53,548                  | 2,940            | 455,000             | 123,461             |
| 2010                    | 30,113                  | 763              | 215,000             | 105,106             |
| 2011                    | 5,500                   | 37               | 130,000             | 95,765              |
| 2012-2016               | -                       | -                | 805,000             | 371,438             |
| 2017-2021               | -                       | -                | 845,000             | 168,523             |
| 2022-2026               | -                       | -                | 190,000             | 9,300               |
|                         | <u>\$ 230,220</u>       | <u>\$ 16,897</u> | <u>\$ 3,475,000</u> | <u>\$ 1,199,586</u> |

| Year Ending<br>June 30, | Business-type Activities |                 |                     |                     |
|-------------------------|--------------------------|-----------------|---------------------|---------------------|
|                         | Notes Payable            |                 | Bonds Payable       |                     |
|                         | Principal                | Interest        | Principal           | Interest            |
| 2007                    | \$ 16,776                | \$ 2,842        | \$ 157,000          | \$ 212,706          |
| 2008                    | 16,868                   | 2,043           | 158,000             | 207,338             |
| 2009                    | 15,000                   | 1,231           | 164,000             | 201,630             |
| 2010                    | 4,000                    | 419             | 166,000             | 195,369             |
| 2011                    | -                        | -               | 167,000             | 188,827             |
| 2012-2016               | -                        | -               | 732,000             | 832,506             |
| 2017-2021               | -                        | -               | 521,000             | 702,901             |
| 2022-2026               | -                        | -               | 651,000             | 569,724             |
| 2027-2031               | -                        | -               | 814,000             | 403,651             |
| 2032-2036               | -                        | -               | 904,000             | 218,905             |
| 2037-2041               | -                        | -               | 510,000             | 45,701              |
|                         | <u>\$ 52,644</u>         | <u>\$ 6,535</u> | <u>\$ 4,944,000</u> | <u>\$ 3,779,258</u> |

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE J – LONG-TERM DEBT (continued)**

**Governmental Activities:**

As of June 30, 2006, the governmental activities long-term debt consisted of the following:

**Notes Payable:**

Note payable issued January 25, 2003 for \$152,487 at 3.24% interest for the purchase of two snowplow trucks. The note calls for 4 annual principal and interest payments of \$41,259.

During the year ended June 30, 2004, the City signed an 84-month note for energy improvements made to City facilities. The note calls for monthly principal and interest payments of \$791 and bears an interest rate of 2.0%.

During the year ended June 30, 2005, the City signed a 48-month note for the purchase of two 2005 DPW trucks. The note calls for four annual payments of \$5,417 and bears an interest rate of 3.28%.

During the year ended June 30, 2006, the City signed a 36 month note for the purchase of a 2005 tandem axle dump truck. The note calls for three annual payments \$20,165 and bears an interest rate of 4.49%.

During the year ended June 30, 2006, the City signed a 48 month note for the purchase of a snow blower. The note calls for four annual payments \$21,415 and bears an interest rate of 3.855%.

**Capital Leases:**

During the year ended June 30, 2002, the City signed a 60-month capital lease for a backhoe. The lease calls for annual principal and interest payments of \$11,926 and bears an interest rate of 6.09%. The amortization of the cost of the backhoe has been included with depreciation expense in the governmental activities section of the Statement of Net Assets.



**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE J – LONG-TERM DEBT (continued)**

**Bonds Payable:**

In April 1994 the Downtown Development Authority issued general obligation limited tax bonds for the purpose of making public improvements to the downtown development area. The bonds were issued in the face amount of \$995,000 and bear an interest rate which varies from 5.3% to 6.0% and have a final maturity of May 2009.

In November 1994 the Downtown Development Authority issued Series II general obligation limited tax bonds for \$995,000 with a variable interest rate ranging from 6.5% to 7.1% and has a final maturity of November 2009. The purpose of the bond issue was to complete the downtown improvement project, which was started with the April 1994 DDA bond issue.

Bonds were issued August 2001 in the name of the Downtown Development Authority for \$550,000 at an interest rate of 7.0% through 2003 and 5.0% thereafter for the purpose of public improvements in the downtown development area. The bonds have final maturity of September 2016.

Bonds were issued September 2005 in the name of the Downtown Development Authority for \$465,000 at an interest rate of 3.54% for the purpose of public improvements in the downtown development area. The bonds have final maturity of October 2008.

Bonds were issued March 2002 for \$2,055,000 for the purpose of closing the City landfill. The City has issued a separate levy for the purpose of making the future debt payments. The bonds call for annual principal payments and semi-annual interest payments and bear an interest rate ranging from 4.25% to 5.05% and have a final maturity of May 2022.

In January 2003, the Michigan Tax Tribunal issued a consent judgement on behalf of Manistique Papers stating that some of the taxable values on their personal property were overstated, therefore calling for a refund of a portion of prior years taxes paid. As part of the judgement, the Downtown Development Authority was ordered to repay \$290,142 in four annual installments of \$72,536.

As part of closing the City's landfill, the Michigan Department of Environmental Quality (MDEQ) required the site to be monitored to ensure the site is compliant with the various environmental requirements of the MDEQ. Because of this requirement, the City has estimated the cost of the future monitoring to be \$20,000 per year for a period of 30 years beginning in the year 2003.

CITY OF MANISTIQUE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

**NOTE J – LONG-TERM DEBT (continued)**

**Business-type Activities:**

As of June 30, 2006, the long-term debt of business-type activities consists of the following:

**Note Payable:**

During the year ended June 30, 2002, the City signed a 108-month note for the purchase/construction of an ambulance garage. The note calls for annual principal and semi-annual interest payments and bears an interest rate of 5.24%.

During the year ended June 30, 2004, the City issued a note for the purchase of an ambulance in the amount of \$61,643. The note calls for four annual principal and interest payments and bears an interest rate of 3.24% with a final maturity date of August 2007.

The City issued a note for capital improvements at the recreation building in the amount of \$42,641. The note calls for annual principal payments of \$4,219 plus accrued interest. The note bears an interest rate of 8.0% and was paid off in the current fiscal year.

The City issued a note to the Manistique Hockey Association for improvements made at the recreation building in the amount of \$8,330. The note calls for three annual payments of \$2,919 and bears an interest rate of 3.28%.

**Bonds Payable:**

1999 Waste Water System Bond - Waste water system revenue bond, original issue dated September 28, 1999 for \$2,581,000 with an interest rate of 4.5%. Principal amounts are due in varying annual installments each August 1<sup>st</sup> beginning in 2000 and ending in 2039. Interest payments are due semi-annually each August 1<sup>st</sup> and February 1<sup>st</sup>. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after August 1, 2000, at par and accrued interest to the date fixed for prepayment. The purpose of the bond was to construct certain additions, renovations, expansions and improvements to the waste water system.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE J – LONG-TERM DEBT (continued)**

1995 Water System Bond - Water system junior lien revenue bond, series 1995A, original dated June 9, 1995 for \$1,900,000 with an interest rate of 4.5%. Bonds are due serially from June 1, 1996 until June 1, 2035. Interest is payable June 1 and December 1. Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 1996, at par and accrued interest to the date fixed for prepayment. The purpose of the bond is to construct improvements to the water system.

2004 Water System Bonds – On June 1, 2004 the City issued water system limited tax general obligation bond refunding series 2004 for the purpose of retiring the 1975 water system bonds. The bonds were issued to the State Savings Bank, Manistique, Michigan in the amount of \$985,000 and have a variable interest rate of 1.9% to 4.55%. Interest payments are due and payable each December 1 and June 1. Principal payments are due each December 1 with the final principal payment due December 1, 2014.

**NOTE K – INTERFUND BALANCES AND TRANSFERS**

Individual fund interfund receivables and payable balances at June 30, 2006 are as follows:

| <u>Fund</u>           | <u>Interfund<br/>Receivable</u> | <u>Fund</u>        | <u>Interfund<br/>Payable</u> |
|-----------------------|---------------------------------|--------------------|------------------------------|
|                       |                                 | Major Street Fund  | \$ 18,504                    |
|                       |                                 | Local Street Fund  | 16,288                       |
|                       |                                 | DDA                | 6,266                        |
|                       |                                 | Ambulance          | 14,101                       |
|                       |                                 | Waste Water System | 7,750                        |
|                       |                                 | Water System       | 13,606                       |
| General Fund          | \$ 76,515                       | Subtotal           | 76,515                       |
| Waste Water Sytem     | 225,363                         | General Fund       | 225,363                      |
| CDBG Downtown Project | 101,039                         | DDA                | 101,039                      |
| Total                 | \$ 402,917                      | Total              | \$ 402,917                   |

Interfund receivables/payables represent temporary advances between funds for goods or services, or to cover short-term cash flow requirements.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE K – INTERFUND BALANCES AND TRANSFERS (continued)**

Interfund transfers for the year ended June 30, 2006 were as follows:

|                       | Transfers<br>In |              | Transfers<br>Out |
|-----------------------|-----------------|--------------|------------------|
| Recreation Building   | \$ 5,000        | General Fund | \$ 5,000         |
| DDA Debt Service      | 258,573         |              |                  |
| CDBG Downtown Project | 699,597         |              |                  |
| Waste Water System    | 60,000          |              |                  |
| Subtotal              | 1,018,170       | DDA          | 1,018,170        |
| Local Street          | 25,000          | Major Street | 25,000           |
| Total                 | \$ 1,048,170    | Total        | \$ 1,048,170     |

The primary purpose of interfund transfers were for debt service requirements for various DDA projects, the DDA's local match for the CDBG downtown project, the reallocation of ACT 51 funds between Local and Major Street funds and an operating appropriation from the General Fund to the Recreation fund.

**NOTE L – RESTRICTED NET ASSETS**

In the Statement of Net Assets, for governmental activities, net assets has been restricted in the amount of \$12,593, of which \$12,433 represents grant awards to the City which are to be used for the exclusive purpose of purchasing a fire protection equipment. Also an amount of \$371,440 has been restricted in the governmental activities column for net assets which are restricted for the sole purpose of maintaining and monitoring the landfill. Net assets have been restricted and are nonexpendable in the amount of \$158,982 and represent the portion of net asset, which may not be spent on cemetery care. The interest earnings from the \$158,982 may be used to provide care for the City's cemeteries.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE M – RISK MANAGEMENT**

**City**

The City is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**Manistique Housing Commission**

The Housing Commission is exposed to various risks of loss to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Housing Commission maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE N – CONTINGENT LIABILITIES**

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City as of June 30, 2006.

**NOTE O – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

The City of Manistique, as licensee, previously operated a landfill on land owned by the State of Michigan. State and federal laws and regulations require that a final cover be placed on the landfill and that certain maintenance and monitoring functions be performed at the landfill site for thirty years after closure.

**CITY OF MANISTIQUE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2006

**NOTE O – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**  
(continued)

During the year ended June 30, 2002, the City issued bonds in the amount of \$2,055,000 for the purpose of paying a portion of the cost of the landfill closure and acquiring and installing equipment for ongoing landfill monitoring and related structures and equipment necessary to comply with Michigan Department of Environmental Quality and court ordered requirements.

The City has also recognized a liability in the amount of \$600,000 in the financial statements for estimated postclosure monitoring costs. These costs were based on an estimated amount of \$20,000 per year for 30 years, with 27 years of monitoring remaining, leaving a balance of \$540,000 as of June 30, 2006. These estimates could change in the future based upon changes in state and federal laws and regulations, inflation or deflation and technology. Since December 1996, three mills are levied annually for landfill closure and postclosure care costs. Proceeds from this levy will be used to cover the bond payment and future maintenance and monitoring expenses.

**NOTE Q – VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

**Manistique Housing Commission**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2005 totaled \$608,079 of which \$435,376 or 71.6% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**

**For the Year Ended June 30, 2006**

|                                       | Budgeted Amounts    |                     | Actual Amounts,<br>(Budgetary Basis) | Variance with<br>Final Budget- |
|---------------------------------------|---------------------|---------------------|--------------------------------------|--------------------------------|
|                                       | Original            | Final               | (See Note A)                         | Positive (Negative)            |
| <b>REVENUES:</b>                      |                     |                     |                                      |                                |
| Federal sources                       | \$ -                | \$ 178,450          | \$ 178,450                           | \$ -                           |
| State sources                         | 464,550             | 488,632             | 488,633                              | 1                              |
| Local sources                         | 17,800              | 25,284              | 26,005                               | 721                            |
| Taxes                                 | 719,066             | 739,452             | 744,888                              | 5,436                          |
| Recreation                            | 21,000              | 38,564              | 39,136                               | 572                            |
| Public safety                         | 900                 | 1,640               | 1,640                                | -                              |
| Charges for services                  | 422,109             | 473,135             | 479,230                              | 6,095                          |
| Equipment rental                      | 210,000             | 217,000             | 232,779                              | 15,779                         |
| Interest income                       | 7,200               | 11,533              | 12,766                               | 1,233                          |
| Miscellaneous                         | 53,522              | 69,608              | 73,595                               | 3,987                          |
| Total revenues                        | <u>\$ 1,916,147</u> | <u>\$ 2,243,298</u> | <u>\$ 2,277,122</u>                  | <u>\$ 33,824</u>               |
| <b>EXPENDITURES:</b>                  |                     |                     |                                      |                                |
| General government:                   |                     |                     |                                      |                                |
| City council                          | \$ 11,350           | \$ 11,742           | \$ 10,627                            | \$ 1,115                       |
| Community promotion                   | 6,550               | 7,950               | 5,584                                | 2,366                          |
| City manager                          | 86,493              | 86,543              | 83,476                               | 3,067                          |
| General administration                | 13,580              | 22,431              | 22,735                               | (304)                          |
| Office assistant                      | 86,622              | 87,314              | 84,869                               | 2,445                          |
| Elections                             | 8,900               | 4,946               | 4,520                                | 426                            |
| City assessor                         | 38,350              | 42,997              | 41,244                               | 1,753                          |
| City attorney                         | 31,000              | 23,119              | 22,973                               | 146                            |
| City clerk                            | 61,676              | 62,281              | 61,715                               | 566                            |
| Board of review                       | 800                 | 348                 | 349                                  | (1)                            |
| City treasurer                        | 23,632              | 49,732              | 46,719                               | 3,013                          |
| Building and grounds                  | 76,573              | 79,187              | 74,328                               | 4,859                          |
| Cemeteries                            | 61,300              | 85,634              | 89,423                               | (3,789)                        |
| Planning                              | 1,925               | 1,925               | 1,890                                | 35                             |
| Public health and safety:             |                     |                     |                                      |                                |
| Public safety                         | 685,208             | 685,476             | 664,656                              | 20,820                         |
| Parks and recreation:                 |                     |                     |                                      |                                |
| Parks                                 | 11,840              | 24,340              | 26,904                               | (2,564)                        |
| Marina                                | 30,850              | 53,400              | 51,070                               | 2,330                          |
| West side boat launch                 | -                   | 1,290               | 956                                  | 334                            |
| General public works:                 |                     |                     |                                      |                                |
| Department of public works            | 349,850             | 357,341             | 322,358                              | 34,983                         |
| Street lighting                       | 39,000              | 39,487              | 39,487                               | -                              |
| Capital outlay                        | 18,600              | 306,531             | 400,335                              | (93,804)                       |
| Debt service                          | 65,097              | 68,605              | 68,605                               | -                              |
| Other                                 | 193,858             | 224,049             | 222,043                              | 2,006                          |
| Total expenditures                    | <u>1,903,054</u>    | <u>2,326,668</u>    | <u>2,346,866</u>                     | <u>(20,198)</u>                |
| Excess revenues (expenditures)        | <u>13,093</u>       | <u>(83,370)</u>     | <u>(69,744)</u>                      | <u>13,626</u>                  |
| <b>OTHER FINANCING SOURCES (USES)</b> |                     |                     |                                      |                                |
| Loan proceeds                         | -                   | 55,500              | 133,500                              | 78,000                         |
| Transfer out                          | (5,000)             | (5,000)             | (5,000)                              | -                              |
| Total other financing sources(uses)   | <u>(5,000)</u>      | <u>50,500</u>       | <u>128,500</u>                       | <u>78,000</u>                  |
| Net changes in fund balances          | 8,093               | (32,870)            | 58,756                               | 91,626                         |
| Fund balances - beginning             | <u>166,102</u>      | <u>166,102</u>      | <u>166,102</u>                       | <u>-</u>                       |
| Fund balances - ending                | <u>\$ 174,195</u>   | <u>\$ 133,232</u>   | <u>\$ 224,858</u>                    | <u>\$ 91,626</u>               |

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**MAJOR STREET FUND**  
**For the Year Ended June 30, 2006**

|                                       | Budgeted Amounts  |                   | Actual Amounts,<br>(Budgetary Basis) | Variance with<br>Final Budget- |
|---------------------------------------|-------------------|-------------------|--------------------------------------|--------------------------------|
|                                       | Original          | Final             | (See Note A)                         | Positive (Negative)            |
| <b>REVENUES:</b>                      |                   |                   |                                      |                                |
| State sources                         | \$ 248,325        | \$ 314,509        | \$ 317,842                           | \$ 3,333                       |
| Interest income                       | 2,000             | 6,300             | 6,645                                | 345                            |
| Total revenues                        | 250,325           | 320,809           | 324,487                              | 3,678                          |
| <b>EXPENDITURES:</b>                  |                   |                   |                                      |                                |
| Street system                         | 244,643           | 298,912           | 283,407                              | 15,505                         |
| Excess revenues (expenditures)        | 5,682             | 21,897            | 41,080                               | 19,183                         |
| <b>OTHER FINANCING SOURCES (USES)</b> |                   |                   |                                      |                                |
| Transfer out                          | (25,000)          | (25,000)          | (25,000)                             | -                              |
| Net changes in fund balances          | (19,318)          | (3,103)           | 16,080                               | 19,183                         |
| Fund balances - beginning             | 131,828           | 131,828           | 131,828                              | -                              |
| Fund balances - ending                | <u>\$ 112,510</u> | <u>\$ 128,725</u> | <u>\$ 147,908</u>                    | <u>\$ 19,183</u>               |



**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**LOCAL STREET FUND**  
**For the Year Ended June 30, 2006**

|                                       | Budgeted Amounts |                  | Actual Amounts,<br>(Budgetary Basis)<br>(See Note A) | Variance with<br>Final Budget-<br>Positive (Negative) |
|---------------------------------------|------------------|------------------|--|---|
|                                       | Original         | Final            |  |   |
| <b>REVENUES:</b>                      |                  |                  |  |   |
| State sources                         | \$ 75,000        | \$ 126,032       | \$ 124,616   | \$ (1,416)  |
| Interest income                       | 700              | 1,850            | 2,040  | 190   |
| Total revenues                        | 75,700           | 127,882          | 126,656  | (1,226)   |
| <b>EXPENDITURES:</b>                  |                  |                  |  |   |
| Street system                         | 99,936           | 133,239          | 134,230  | (991)   |
| Excess revenues (expenditures)        | (24,236)         | (5,357)          | (7,574)  | (2,217)   |
| <b>OTHER FINANCING SOURCES (USES)</b> |                  |                  |  |   |
| Transfer in                           | 25,000           | 25,000           | 25,000   | -   |
| Net changes in fund balances          | 764              | 19,643           | 17,426   | (2,217)   |
| Fund balances - beginning             | 43,963           | 43,963           | 43,963   | -   |
| Fund balances - ending                | <u>\$ 44,727</u> | <u>\$ 63,606</u> | <u>\$ 61,389</u>                                     | <u>\$ (2,217)</u>                                     |

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**DDA FUND**  
**For the Year Ended June 30, 2006**

|                                       | Budgeted Amounts |             | Actual Amounts,<br>(Budgetary Basis)<br>(See Note A) | Variance with<br>Final Budget-<br>Positive (Negative) |
|---------------------------------------|------------------|-------------|--|---|
|                                       | Original         | Final       |  |   |
| <b>REVENUES:</b>                      |                  |             |  |   |
| State sources                         | \$ -             | \$ 15,000   | \$ 15,000  | \$ -  |
| Local sources                         | -                | 12,000      | 12,000   | -   |
| Taxes                                 | 725,000          | 739,000     | 739,773  | 773   |
| Interest income                       | 4,000            | 20,000      | 21,401   | 1,401   |
| Miscellaneous                         | 29,991           | 57,309      | 36,853   | (20,456)  |
| Total revenues                        | \$ 758,991       | \$ 843,309  | \$ 825,027   | \$ (18,282)   |
| <b>EXPENDITURES:</b>                  |                  |             |  |   |
| Economic development                  | \$ 233,790       | \$ 268,416  | \$ 252,722   | \$ 15,694   |
| Capital outlay                        | 25,000           | 26,460      | 36,474   | (10,014)  |
| Total expenditures                    | 258,790          | 294,876     | 289,196  | 5,680   |
| Excess revenues (expenditures)        | 500,201          | 548,433     | 535,831  | (12,602)  |
| <b>OTHER FINANCING SOURCES (USES)</b> |                  |             |  |   |
| Loan proceeds                         | -                | 465,000     | 465,000  | -   |
| Transfer out                          | (611,385)        | (1,167,773) | (1,018,170)  | 149,603   |
| Total other financing sources(uses)   | (611,385)        | (702,773)   | (553,170)  | 149,603   |
| Net changes in fund balances          | (111,184)        | (154,340)   | (17,339)   | 137,001   |
| Fund balances - beginning             | 289,549          | 289,549     | 289,549  | -   |
| Fund balances - ending                | \$ 178,365       | \$ 135,209  | \$ 272,210   | \$ 137,001  |

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**CDBG DOWNTOWN PROJECT**  
**For the Year Ended June 30, 2006**

|                                       | Budgeted Amounts |             | Actual Amounts,<br>(Budgetary Basis)<br>(See Note A) | Variance with<br>Final Budget-<br>Positive (Negative) |
|---------------------------------------|------------------|-------------|--|---|
|                                       | Original         | Final       |  |   |
| <b>REVENUES:</b>                      |                  |             |  |   |
| Federal sources                       | \$ -             | \$ 579,000  | \$ 579,351   | \$ 351  |
| <b>EXPENDITURES:</b>                  |                  |             |  |   |
| Capital outlay                        | -                | 1,431,000   | 1,243,846  | 187,154   |
| Excess revenues (expenditures)        | -                | (852,000)   | (664,495)  | 187,505   |
| <b>OTHER FINANCING SOURCES (USES)</b> |                  |             |  |   |
| Transfer in                           | -                | 852,000     | 699,597  | (152,403)   |
| Total other financing sources (uses)  | -                | 852,000     | 699,597  | (152,403)   |
| Net changes in fund balances          | -                | -           | 35,102   | 35,102  |
| Fund balances - beginning             | (35,102)         | (35,102)    | (35,102)   | -   |
| Fund balances - ending                | \$ (35,102)      | \$ (35,102) | \$ -   | \$ 35,102   |

**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2006

|                                      | Debt Service<br>Fund | Capital<br>Project Fund  | Permanent<br>Fund          | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------------|----------------------|--------------------------|----------------------------|--|
|                                      | DDA Debt<br>Service  | Landfill<br>Construction | Cemetery<br>Perpetual Care |  |
| <b>ASSETS</b>                        |                      |                          |                            |  |
| Cash and equivalents:                |                      |                          |                            |  |
| Restricted                           | \$ -                 | \$ -                     | \$ 158,982                 | \$ 158,982                                 |
| Unrestricted                         | -                    | 352,896                  | -                          | 352,896                                    |
| Receivables:                         |                      |                          |                            |  |
| Delinquent taxes                     | -                    | 1,091                    | -                          | 1,091                                      |
| Due from other governmental units    | -                    | 10,293                   | -                          | 10,293                                     |
| Total assets                         | <u>\$ -</u>          | <u>\$ 364,280</u>        | <u>\$ 158,982</u>          | <u>\$ 523,262</u>                          |
| <b>LIABILITIES AND FUND BALANCES</b> |                      |                          |                            |  |
| Liabilities:                         |                      |                          |                            |  |
| Accounts payable                     | \$ -                 | \$ -                     | \$ -                       | \$ -                                       |
| Deferred revenue                     | -                    | 1,091                    | -                          | 1,091                                      |
| Total liabilities                    | <u>-</u>             | <u>1,091</u>             | <u>-</u>                   | <u>1,091</u>                               |
| Fund balances:                       |                      |                          |                            |  |
| Reserved for:                        |                      |                          |                            |  |
| Cemetery perpetual care              | -                    | -                        | 158,982                    | 158,982                                    |
| Unreserved, undesignated             | -                    | 363,189                  | -                          | 363,189                                    |
| Total fund balances                  | <u>-</u>             | <u>363,189</u>           | <u>158,982</u>             | <u>522,171</u>                             |
| Total liabilities and fund balances  | <u>\$ -</u>          | <u>\$ 364,280</u>        | <u>\$ 158,982</u>          | <u>\$ 523,262</u>                          |

See accompanying notes to financial statements.

**CITY OF MANISTIQUE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2006**

|  | Debt Service<br>Fund | Capital<br>Project Funds | Permanent<br>Fund          | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|----------------------|--------------------------|----------------------------|--|
|  | DDA Debt<br>Service  | Landfill<br>Construction | Cemetery<br>Perpetual Care |  |
| <b>REVENUES:</b>                       |                      |                          |                            |  |
| Taxes                                  | \$ -                 | \$ 180,127               | \$ -                       | \$ 180,127                                 |
| Interest income                        |                      | 9,430                    | -                          | 9,430                                      |
| Miscellaneous                          | -                    | -                        | 3,300                      | 3,300                                      |
| Total revenues                         | -                    | 189,557                  | 3,300                      | 192,857                                    |
| <b>EXPENDITURES:</b>                   |                      |                          |                            |  |
| Sanitary landfill                      | -                    | 52,558                   | -                          | 52,558                                     |
| Capital outlay                         | -                    | 2,612                    | -                          | 2,612                                      |
| Debt service:                          |                      |                          |                            |  |
| Principal                              | 185,000              | 45,000                   | -                          | 230,000                                    |
| Interest and other charges             | 73,573               | 91,588                   | -                          | 165,161                                    |
| Total expenditures                     | 258,573              | 191,758                  | -                          | 450,331                                    |
| Excess revenues (expenditures)         | (258,573)            | (2,201)                  | 3,300                      | (257,474)                                  |
| <b>OTHER FINANCING SOURCES (USES):</b> |                      |                          |                            |  |
| Transfers in                           | 258,573              | -                        | -                          | 258,573                                    |
| Net changes in fund balances           | -                    | (2,201)                  | 3,300                      | 1,099                                      |
| Fund balances - beginning              | -                    | 365,390                  | 155,682                    | 521,072                                    |
| Fund balances - ending                 | \$ -                 | \$ 363,189               | \$ 158,982                 | \$ 522,171                                 |

See accompanying notes to financial statements.

## **SINGLE AUDIT**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members  
of the City Council  
City of Manistique  
Manistique, MI 49854

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Manistique, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Manistique, Michigan's basic financial statements and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City of Manistique, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether the City of Manistique, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Manistique, Michigan, in a separate letter dated September 7, 2006.

This report is intended solely for the information of management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 7, 2006





**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS**  
**APPLICABLE TO EACH MAJOR PROGRAM**  
**AND ON INTERNAL CONTROL OVER COMPLIANCE**  
**IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members  
of the City Council  
City of Manistique  
Manistique, Michigan 49854

Compliance

We have audited the compliance of the City of Manistique, Michigan with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended June 30, 2006. City of Manistique, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Manistique, Michigan's management. Our responsibility is to express an opinion on City of Manistique, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Manistique, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Manistique, Michigan's compliance with those requirements.

In our opinion, the City of Manistique, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Members of the City Council  
City of Manistique

Internal Control Over Compliance

The management of the City of Manistique, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Manistique, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*  
Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 7, 2006

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the year ended June 30, 2006**

| <u>Federal grantor/pass-through/program title</u> | <u>Federal<br/>CFDA Number</u> | <u>Agency or<br/>pass-through number</u> | <u>Federal<br/>Expenditures</u> |
|---|--------------------------------|--|---------------------------------|
| U.S. Department of Housing and Urban Development  |                                |  |                                 |
| Passed through the Michigan                       |                                |  |                                 |
| Strategic Fund:                                   |                                |  |                                 |
| Community Development Block Grant                 | 14.228                         | MSC 203079-PW                            | <u>\$ 579,351</u>               |
| U.S. Department of Homeland Security              |                                |  |                                 |
| Direct Funding:                                   |                                |  |                                 |
| Assistance to Firefighters Grant                  | 97.044                         | EMW-2005-FG-14427                        | 57,000                          |
| Assistance to Firefighters Grant                  | 97.044                         | EMW-2004-FG-08235                        | <u>111,675</u>                  |
| Total U.S. Department of Homeland Security        |                                |  | <u>\$ 168,675</u>               |
| U.S. Department of Transportation                 |                                |  |                                 |
| Passed through the Michigan State Police          |                                |  |                                 |
| State and Community Highway Safety                | 20.600                         | -  | <u>\$ 9,775</u>                 |
| <br>TOTAL FEDERAL AWARDS                          |                                |  | <br><u><u>\$ 757,801</u></u>    |

See accompanying notes to the schedule of expenditures of federal awards.

**CITY OF MANISTIQUE, MICHIGAN**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2006**

**NOTE A – OVERSIGHT AGENCY**

The U.S. Department of Homeland Security is the current year's oversight agency for single audit as determined by the agency providing the largest share of direct federal financial assistance.

**NOTE B – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting.

**NOTE C – PASS-THROUGH GRANTOR'S OR PROGRAM NUMBERS**

The pass-through grantor's number represents the County's provider I.D. number. Such other I.D. numbers were not available or provided by the State administering agencies.

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2006**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Manistique, Michigan.
2. There were no reportable conditions disclosed during the audit of the basic financial statements to be reported in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. There were no instances of noncompliance material to the basic financial statements of the City of Manistique, Michigan disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal programs to be reported in the *Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal programs for the City of Manistique, Michigan expresses an unqualified opinion.
6. There were no findings noted relative to the major federal programs for the City of Manistique.
7. The programs tested as major programs included:
  - Community Development Block Grant CFDA #14.228
8. The threshold for distinguishing Type A & B programs was \$300,000.
9. The City of Manistique, Michigan was determined not to be a low-risk auditee.

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2006**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

2006-1: Budget Noncompliance

*Statement of Condition/Criteria:* Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2006, the City incurred expenditures in excess of amounts appropriated as follows:

|              | <u>Total<br/>Appropriation</u> | <u>Expenditures</u> | <u>Budget<br/>Variance</u> |
|--------------|--------------------------------|---------------------|----------------------------|
| General Fund | \$ 2,331,668                   | \$ 2,351,866        | \$ (20,198)                |
| Local Street | 133,239                        | 134,230             | (991)                      |

*Effect:* The City has not complied with various State statutes.

*Cause of Condition:* Budget amendments were not made prior to the expenditure of funds.

*Recommendation:* Budget amendments should be made prior to the expenditure of funds.

*Status:* Management will review budgets monthly and make amendments as deemed necessary.

**CITY OF MANISTIQUE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2006**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None

**CITY OF MANISTIQUE, MICHIGAN**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2006**

**A. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None



**CITY OF MANISTIQUE, MICHIGAN**

**REPORT TO MANAGEMENT**

**JUNE 30, 2006**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT TO MANAGEMENT**

To the Honorable Mayor and Members  
of the City Council  
City of Manistique

**Audit Committee Communications**

We have audited the financial statements of the City of Manistique, Michigan for the year ended June 30, 2006, and have issued our reports thereon dated September 7, 2006. Professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

In planning and performing our audit, we considered the City of Manistique, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the Honorable Mayor and Members  
of the City Council  
City of Manistique  
Page 2

As part of obtaining reasonable assurance about whether the City of Manistique, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Manistique, Michigan's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Manistique, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Manistique, Michigan's compliance with those requirements.

#### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Manistique, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Manistique, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

To the Honorable Mayor and Members  
of the City Council  
City of Manistique  
Page 3

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Manistique's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by the City of Manistique, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Manistique's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Manistique's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Honorable Mayor and Members  
of the City Council  
City of Manistique  
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

**Comments and Recommendations**

In planning and performing our audit of the financial statements of the City of Manistique, Michigan for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated September 7, 2006, on the financial statements of the City of Manistique, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of City Council and management of the City of Manistique and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

September 7, 2006

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**Utility Billing System**

**Comment:**

The following items were noted relating to the utility billing system:

1. Segregation of duties - Currently the utility billing clerk has the ability to make manual adjustments to the utility billing system, generate the billings from the utility billing system, and collect and receipt a large portion of the cash collections relating to utility accounts.

**Recommendation:**

1. Segregation of duties – The City should review the procedures relating to the utility billing function and segregate duties relating to the utility billing system if possible.

**Management Response:**

The City has segregated duties to the best of our ability with the few people we have and the software we presently use. The implementation of new software that receipts instantly would help alleviate the problem. The re-positioning of the part-time City Clerk to full-time has helped with the cash collections. The City has also involved more employees in the review of adjustments and billings, with prior approval required from management before adjustments are made.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**Use of Passwords**

**Comment:**

During our audit, we became aware that administrative employees share the same password to access the general ledger.

**Recommendation:**

Because of the nature of the information recorded in the general ledger, each individual who has access to the general ledger should have their own password and be required to only use their password to access the general ledger. The sharing of passwords should be not be permitted as it weakens the internal controls of the City.

**Management Response:**

There is one administrative computer that is used by Manatron to access the system for all departments when necessary. The password on that computer will be restricted.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**Water and Sewer Bond Reserves:**

**Comment:**

It appears that in the Sewer Fund, the bond requirements for funding the operation and maintenance fund and the repair, replacement and improvement fund appear to be inadequately funded. In the Water Fund, the bond requirements for funding the operation and maintenance fund and the bond reserve fund appear to be inadequately funded.

**Recommendation:**

The City should review the bond requirements for funding these accounts and adjust their utility rates so these funds can be adequately funded in accordance with the bond agreements.

**Management Response:**

The City Council has recently approved a rate increase that will help with this funding.



**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**Budget Non-Compliance**

**Comment:**

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

|              |           |
|--------------|-----------|
| General Fund | \$ 20,198 |
| Local Street | 991       |

**Recommendation:**

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations.

**Management Response:**

End of year expenditures exceeded our amendment estimates, therefore causing the excess of expenditures over appropriations. We will make a concerted effort to see that this does not happen next year.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**Payroll System Internal Controls**

**Comment:**

During our testing of the internal controls over the payroll system, we tested 25 payroll transactions and noted 2 timesheets that did not have a supervisors approval and 1 timesheet where the employee was not paid for the total hours indicated on the timesheet.

**Recommendation:**

While it appears that these were isolated incidents, in order to maintain adequate internal controls over the payroll process, all timesheets should be approved by a supervisor and the total hours worked should be verified prior to issuing payroll checks.

**Management Response:**

We will make a concerted effort to prevent this problem from happening again.

**CITY OF MANISTIQUE, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

June 30, 2006

**GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

**Comment:**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Manistique being required to implement the Statement for the year ended June 30, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning July 1, 2009, the City will be required by U.S. governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used, as part of Statement 45, are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

**Management Response:**

The City will certainly address this issue and prepare for this future requirement.